SUPREME COURT OF THE UNITED STATES

OCTOBER TERM, 1944

No.

ALMA MOTOR COMPANY, PETITIONER,

vs.

THE TIMKEN-DETROIT AXLE COMPANY

ON PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES CIRCUIT COURT OF APPEALS FOR THE THIRD CIRCUIT

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[fol. 1]

IN THE UNITED STATES CIRCUIT COURT OF APPEALS FOR THE THIRD CIRCUIT

Excerpts from Appendices to Appellant's Brief

IN UNITED STATES DISTRICT COURT FOR THE DISTRICT OF DELAWARE

RELEVANT DOCKET ENTRIES

Jan. 23, 1941. Complaint filed; same day summons issued.

May 5, 1941. Answer filed with counterclaim.

May 24, 1941. Plaintiff's reply to defendant's counterclaim, filed.

May 15, 1942. Plaintiff's notice of motion, motion for leave to amend complaint and reply, filed.

May 18-22, 1942. Trial before Kirkpatrick J. at Easton, Penna.

July 13, 1942. Defendant's answer to amendments to plaintiff's complaint, filed. Defendant's proposed Findings of Fact (filed with court no date).

Sept. 23, 1942. Opinion Kirkpatrick J. filed. Deposition of Robert F. Brown and Charles G. Dowd received from Kirkpatrick, J., filed, no date.

Oct. 31, 1942. Transcript of testimony at trial in 5 volumes received from Kirkpatrick, J.

Dec. 2, 1942. Judgment Kirkpatrick, J. that patent No. 2,173,044 is owned by defendant; that plaintiff is licensee under such patent; that plaintiff is estopped to contest the validity of patent; that plaintiff has manufactured and sold and should have paid certain royalties, etc.; that unless parties agree to amount due, Court will appoint a [fol. 2] master; and that three-fourths of taxable costs be paid by plaintiff and one-fourth by defendant other than costs of accounting. Copy of judgment sent to Counsel for both parties. (Judgment dated Nov. 30, 1942).

Dec. 2, 1942. Findings of Facts and Conclusions attached to Judgment filed.

Feb. 27, 1943. Notice of appeal by defendant filed. Notice to Berl and 3rd C. C. A.

May 12, 1943. Defendant's statement of points to be relied upon, filed.

May 12, 1943. Defendant's designation of record on appeal filed.

May 13, 1943. Order re sending original exhibits with record on appeal filed.

[fol. 3] IN UNITED STATES DISTRICT COURT

COMPLAINT—Filed January 23, 1941

To the Honorable the Judges of the United States District Court in and for the District of Delaware:

The Timken-Detroit Axle Company for its complaint against the defendant alleges as follows:

Count I

1. That jurisdiction is founded on diversity of citizenship and amount.

Plaintiff is a corporation incorporated under the laws of the State of Ohio, and defendant is a corporation incorporated under the laws of the State of Delaware. The matter in controversy exceeds, exclusive of interest and costs, the sum of Three Thousand Dollars.

2. That this count is an action for a declaratory judgment pursuant to the Federal Declaratory Judgment Act of June 14, 1934, Amended, (Section 274-d Judicial Code; U. S. C., Title 28 Section 400) and for damages due to defendant surreptitiously acquiring a patent containing invalid claims upon an application of Frank W. Ruggles and Charles D. Smith, Serial No. 7,751, filed February 23, 1935, in violation of an agreement with plaintiff and one Arthur W. Herrington in effecting a settlement of interference No. 73,919 in the United States Patent Office.

3. That the plaintiff is the owner of an application of Beverly W. Keese for United States Letters Patent for "Power Transmitting Mechanisms", Serial No. 34,621, filed August 3, 1935, said application having been assigned to the plaintiff by an assignment of August 1, 1935, recorded in the United States Patent Office on May 9, 1938 in Liber X-174, at page 5.

4. That on or about February 12, 1937 said application became involved in interference No. 73,919 with said appli-
[fol. 4] cation of Ruggles and Smith Serial No. 7,751, and with an application of said Arthur W. Herrington, Serial No. 7,976, filed on February 25, 1935. The Ruggles et al application was assigned by mesne assignments of record to the Alma Motor Company.

5. That subsequent to the declaration of interference No. 73,919, the parties thereto located certain prior art comprising prior patents, prior publications and prior uses which in the opinion of all parties rendered certain of said interference counts unpatentable, and rendered patentability of any common subject matter of the interfering applications doubtful.

6. Realizing the futility of expending large sums of money in contesting and litigating said interference No. 73,919, in view of the doubtful validity of any patentable claims, the parties met and agreed that each would cancel the clearly unpatentable claims from their applications, that they would determine the priority of the subject matter of the interference counts upon inspection of evidence submitted by each party, and concede priority in accordance with the proofs, that the successful party would bring said prior art to the attention of the Patent Office and prosecute his application in the light of said prior art to obtain such protection as the prior art, in the opinion of the Patent Office, would permit, and that the successful party would grant the unsuccessful parties a non-exclusive license under all patent claims finally issued by the Patent Office.

7. Pursuant to this agreement each party cancelled the clearly unpatentable claims from his application, it was determined that the parties Ruggles and Smith were entitled to priority on the subject matter of the interfering counts, the parties Keese and Herrington conceded priority to the parties Ruggles and Smith, and said Interference No. 73,919 was terminated on June 18, 1938 by an award of priority to Ruggles and Smith.

[fol. 5] 8. At the same time and pursuant to the aforementioned agreement the Alma Motor Company as owner of the Ruggles and Smith application on May 26, 1938 granted the plaintiff, The Timken-Detroit Axle Company,

a non-exclusive license under said application Serial No. 7,751 and any patent issued thereon, and plaintiff agreed to pay specified royalties on transfer cases made and sold by it, embodying improvements invented by said Ruggles and Smith and were dominated by claims obtained in said Ruggles and Smith application, from the date of issuance of a patent on said application as will appear from the instrument of license, or duly authenticated copy thereof, profert of which is here made as this Court may require.

9. That notwithstanding said agreement of the parties and settlement of Interference No. 73,919, in accordance with the agreement of said parties, defendant, Alma Motor Company, without the knowledge or consent of plaintiff, failed to advise the Patent Office of said prior art, and in violation of said agreement, filed an amendment after the termination of said interference making only formal changes in its application Serial No. 7,751, obtained allowance of the claims of said application upon inconsequential changes in form only, and on September 12, 1939 obtained Letters Patent No. 2,173,044 containing twelve claims.

10. That since the issuance of said patent, plaintiff has been informed and believes that the Patent Office did not know of said prior art and, upon information and belief alleges that the Patent Office would not have issued said Letters Patent No. 2,173,044 with claims of the prima facie scope of those contained in said patent if it had known of said prior art, and plaintiff therefore alleges that all of the claims of said letters patent are invalid in view of the prior art.

11. Plaintiff further alleges that prior to and since the issuance of said Letters Patent, it has manufactured and [fol. 6] sold various designs of transfer cases for transmitting power to the four wheels of a power driven vehicle and has made returns and paid royalties in accordance with said license only on such of said transfer cases which, in its opinion based on the art known to it at the times of payment, embodied improvements invented by said Ruggles and Smith, and which are defined by the terms of the claims of said Letters Patent No. 2,173,044.

12. That the "transfer cases" manufactured by the plaintiff, The Timken-Detroit Axle Company, since the issuance of said Patent No. 2,173,044 on September 12, 1939,

are shown in the drawings, copies of which have been supplied to defendants, profert of which is here made as this Court may require, and which are identified by the following numbers, to wit:

A-334	A-492	A-605	A-635
A-359	A-497	A-612	A-638
A-378	A-582	A-613	A-678
A-388	A-588	A-624	A-693
A-418	A-595	A-626	SKT 6338 T-32-13-1 and 2
A-456	A-596	A-631	
A-468	A-604	A-632	

T-2-B-7-5	(A 497)	T-43-V-1	(A 626)
T-2-B-27-1	(A 572)	T-52-9	(A 469)
T-2-B-3-3	(A 675)	T-53-C	(A 512)
T-7-E-3-3	(A 456)	T-53-D	(A 512)
T-7-E-3-4	(A 456)	T-61-A	(A 538)
T-7-E-3-5	(A 456)	T-77-3-1	(A 624)
T-7-F-3-2	(A 664)	T-77-3-2	(A 624)
T-7-Q-3	(A 664)	T-77-3-A	(A 624)
T-7-R-3	(A 664)	T-77-C-3	(A 624)
T-8-1		T-80	(A 640)
T-25-B	(A 329)	T-32-13-7	(A 613)
T-43-P	(A 626)		

13. That notwithstanding the foregoing circumstances and the specific wording of said license defendant contended [fol. 7] and still contends that all of said transfer cases manufactured and sold by plaintiff that come within the literal terms of the claims of said Letters Patent, are subject to the royalty provisions of said license.

14. That since issuance of Letters Patent No. 2,173,044 and since the controversy set forth in the preceding paragraphs of this Count arose, defendant, without the knowledge and consent of plaintiff filed an invalid disclaimer attempting to modify claim 10 of said patent and altering and depreciating, if not wholly destroying the validity of said patent, the protection of which constitutes the full consideration passing to plaintiff under said license whereby plaintiff's rights under said license are seriously jeopardized.

15. Because of the said controversy as to royalties due defendant under said license agreement, plaintiff had a fur-

ther search of the prior art made in which still further pertinent prior art not known to it at the time of the settlement of said Interference No. 72,919 was found, and plaintiff is now informed and believes that it is not obligated under the terms of said license to pay royalties on any of the transfer cases manufactured and sold by it, and that the claims of Letters Patent No. 2,173,044 are invalid for the following reasons:

a. That Ruggles and Smith are not the original inventors of the alleged improvements therein described and claimed, because said alleged improvements and all material and substantial parts thereof were previously patented or described in the following Letters Patent of the United States, to wit:

826,365	Schmidt	July 17, 1906
958,242	Falk	May 17, 1910
1,075,650	Huff	Oct. 14, 1913
1,186,648	Chaquette	June 13, 1916
1,253,670	Church	Jan. 15, 1918

[fol. 8]

1,269,944	Leonard	June 18, 1918
1,273,631	Leonard	July 23, 1918
1,296,216	Reif	Mar. 4, 1919
1,323,501	Thomas	Dec. 2, 1919
1,523,613	Sharpneck	Jan. 20, 1925
1,629,518	Martin	May 24, 1927
1,812,801	us	June 30, 1931
1,927,276	Bryan	Sept. 19, 1933
1,976,071	Hoffman	Oct. 9, 1934

b. That prior to the alleged invention by said Ruggles and Smith, the alleged improvements therein described and claimed, and all material and substantial parts thereof, had been known to or made and used by others in the United States, and particularly as embodied in the following:

1. The prior public use and sale to the United States Government in 1931 of military trucks having the transfer case illustrated and described on page 52 of the July 11, 1931 issue of "Automotive Industries".

2. The prior public use and sale of four wheel drive vehicles, known as the "Franklin chassis job" built late

in 1931, and assembled and operated by the United States Government for military purposes at Camp Holabird early in 1932, and embodying transfer cases built by the Wisconsin Axle Company. These transfer cases are shown in prints T-9; T-11 of the Wisconsin Axle Company, dated November 13, 1931, and this prior use was brought to the attention of defendant in the negotiations for the settlement of said Interference No. 73,919.

3. The prior public use and sale of the so-called "White Scout Car" by the United States Government for military purposes at Camp Holabird, and which incorporated a concentric drive type transfer case, designed by the Brown-Lipe Division of the Spicer Manufacturing Corporation in the spring of 1933, and shown in Print No. 13138 dated April 24, 1933. This transfer case was built for the United [fol. 9] States Government in the Fall of 1933 and arrived at Camp Holabird where it was installed in the "White Scout Car" in November 1933. This prior use was brought to the attention of the defendant in the negotiations for the settlement of said Interference No. 73,919.

c. That in view of the state of the art at the time of the alleged invention by Ruggles and Smith, the claims of said Letters Patent are devoid of substantial novelty and invention.

d. That in view of the filing of the invalid disclaimer as set forth in paragraph 14 hereof said Letters Patent is invalid and void in part, or in its entirety.

16. That the plaintiff has been irreparably damaged by the failure of defendant, Alma Motor Company, to notify the Examiner in charge of the Ruggles et al. application of the aforementioned prior public uses and obtain a patent containing valid claims and its unauthorized action in filing said disclaimer, as a result of which the plaintiff, The Timken-Detroit Axle Company, may be deprived of the benefits which would otherwise accrue to it under the aforementioned license.

Wherefore the plaintiff prays that the Court adjudge:

First: That the claims of said Letters Patent No. 2,173,044 are invalid or of invalid scope.

Second: That the claims of Letters Patent No. 2,173,044 if valid are of such narrow scope that they do not dominate the trafisfer cases manufactured by the plaintiff.

Third: That the plaintiff is not obligated to pay royalties to the defendant under any proper interpretation of said license agreement, on any of the transfer cases now being manufactured and sold by the plaintiff.

Fourth: That plaintiff have judgment against defendant in the sum of $50,000.

[fol. 10] *Fifth:* That defendant may be decreed to pay the costs, charges and disbursements of this count I hereof.

Sixth: That the plaintiff may have such other and further relief in the premises as this count I may require and the Court may deem meet and just.

Count II

17. That jurisdiction is founded on the existence of a question arising under section 24 of the Judicial Code, Amended, paragraph 7; U. S. C. Title 28, Section 41, Paragraph 7, as hereinafter appears.

18. That this count is an action for a declaratory judgment pursuant to the Federal Declaratory Judgment Act of June 14, 1934, Amended (Section 274-d Judicial Code; U. S. C. Title 28 section 400).

19. That on September 12, 1939 United States Letters Patent No. 2,173,044 was issued to Frank W. Ruggles and Charles D. Smith for an invention in "Auxiliary Transmission Mechanism for Four-Wheel-Drive Automotive Vehicles", after due proceedings in the Patent Office as more fully set forth in paragraphs 3 to 9 of Count I hereof.

20. That, upon information and belief, plaintiff alleges that had the Patent Office been informed of the prior art known to the parties to Interference No. 73,919 it would not have allowed the said Ruggles and Smith application to issue as a Letters Patent with claims of the scope contained herein, if it would have issued said Letters Patent at all.

21. That since the issuance of said Letters Patent No. 2,173,044 on September 12, 1939 the plaintiff has manu-

factured, used and sold transfer cases as set forth in paragraph 11 of Count I hereof which, it is charged by the defendant, the Alma Motor Company, infringe the claims of said Letters Patent.

[fol. 11] 22. That said Letters Patent No. 2,173,044 is invalid and void for the reasons heretofore set forth in paragraphs 14 and 15a to 15d of Count I hereof.

Wherefore the plaintiff prays that the Court adjudge:

First: That the Ruggles et al. patent No. 2,173,044 is invalid.

Second: That if the Court determines that the Ruggles et al. patent is valid, the claims thereof when validly interpreted do not cover and are not infringed by the transfer cases manufactured, used, and/or sold by the plaintiff.

Third: That the defendant may be decreed to pay the costs, charges and disbursements of this Count II hereof.

Fourth: That the plaintiff may have such other and further relief in the premises as this Count II may require and the Court may deem meet and just.

William A. Strand, Counsel for Plaintiff, 1001 Fifteenth Street, N. W., Washington, D. C.

E. Ennalls Berl, Solicitor for Defendant, Delaware Trust Building, Wilmington, Delaware.

[fol. 12] In United States District Court

Answer and Counter-Claim—Filed May 5, 1941

Defendant moves the court to dismiss the complaint on the ground that there is no equity in the plaintiff as shown therein.

Defendant Alma Motor Company, for answer to matters set forth in the complaint, says:

Count I

1. For answer to paragraph 1, defendant admits the allegations therein.

2. For answer to paragraph 2, defendant denies the same.

3. For answer to paragraph 3, defendant denies that the plaintiff is the owner of an application as set forth in said paragraph. It admits that plaintiff formerly was the owner of such an application.

4. For answer to paragraph 4, defendant admits the allegations contained therein.

5. For answer to paragraph 5, defendant admits the allegations of said paragraph.

6. For answer to paragraph 6, defendant denies that the successful party would bring said prior art to the attention of the Patent Office and prosecute his application in the light of said prior art, as alleged in said paragraph. Further answering said paragraph it admits that there were negotiations with reference to settlement of various claims under interferences and admits that Alma Motor Company, defendant, agreed to, and did, grant a non-exclusive license to the plaintiff under all patent claims issued by the Patent Office.

7. For answer to paragraph 7, defendant denies that pursuant to an agreement as alleged by plaintiff in paragraph 6 [fol. 13] it did anything, but it admits that pursuant to its agreement the Parties Keese and Herrington conceded priority to the parties Ruggles and Smith, and that said interference No. 73,919 was terminated on June 18, 1938 by an award of priority to Ruggles and Smith.

8. For answer to paragraph 8, defendant admits the same.

9. For answer to paragraph 9, defendant denies the allegations thereof.

10. For answer to paragraph 10, defendant denies the allegations thereof.

11. For answer to paragraph 11, defendant admits that prior to and since the issuance of said letters patent plaintiff has manufactured and sold various designs of transfer cases for transmitting power to the four wheels of a power driven vehicle, and has made returns and paid royalties on a small number of said transfer cases; and for further answer, defendant says that all of the transfer cases manufactured and sold by plaintiff have been manufactured so as to embody the principles and features of said United

States Letters Patent No. 2,173,044; that plaintiff has arbitrarily refused to pay royalties on such transfer cases, and that at the same time it has manufactured under said patent, and claims to have rightfully manufactured under said patent by reason of the license agreement between the parties.

12. For answer to paragraph 12, defendant admits that some of the transfer cases manufactured by the plaintiff since the issuance of said Patent No. 2,173,044 are shown in the drawings listed in said paragraph 12. Defendant has no knowledge as to whether plaintiff has made other transfer cases falling within the claims of said patent sufficient for defendant to form a belief concerning the same and therefore neither admits nor denies the allegations of [fol. 14] said paragraph 12 but leaves the plaintiff to its proof thereon.

13. For answer to paragraph 13, defendant admits the allegations thereof.

14. For answer to paragraph 14, defendant denies the allegations thereof.

15. For answer to paragraph 15, the defendant denies each and every allegation of said paragraph and its subdivisions, as pleaded. For further answer defendant says that the plaintiff is a licensee of the defendant under the terms of a license agreement dated the 16th day of May, 1938; that said license agreement covers a license under said patent; that said patent has never been declared invalid in any part thereof; that said license agreement is in full force and effect and that said licensee has not at any time cancelled said license agreement but is and was at the time of the commencement of this action exercising all its rights and privileges under said license agreement, and that said plaintiff wrongfully withholds the payment of royalties thereunder. Defendant further shows that all of the information contained in the allegations of paragraph 15a and subdivisions 1, 2 and 3 of sub-paragraph b of paragraph 15, and the allegations of sub-paragraph c of paragraph 15 was known to and in possession of the plaintiff before and at the time of the making of said license of May 16, 1938.

16. For answer to paragraph 16, defendant denies the allegations thereof.

Count II

17. For answer to paragraph 17, defendant denies the allegations thereof.

18. For answer to paragraph 18, defendant denies the allegations thereof.

[fol. 15] 19. For answer to paragraph 19, defendant admits the allegations thereof.

20. For answer to paragraph 20, defendant denies the allegations thereof.

21. For answer to paragraph 21, defendant admits the allegations thereof.

22. For answer to paragraph 22, defendant denies the allegations thereof.

Wherefore, the plaintiff prays that said complaint may be dismissed with costs for the defendant, for failure to state a claim upon which relief can be granted.

Counter-Claim

The defendant, Alma Motor Company, for a counter-claim against plaintiff The Timken-Detroit Axle Company, says:

1. That on May 16, 1938, by terms of a license agreement on that day executed by the parties to this suit, it granted a license to manufacture articles embodying principles and features of United States Letters Patent No. 2,173,044; that by the terms of said license agreement the plaintiff had manufactured during the pendency of the application for said patent; that it was so manufacturing on the date of issue of said patent, to-wit, September 12, 1939, and has continuously so manufactured, and is now so manufacturing.

2. That notwithstanding the fact that plaintiff has manufactured under said license agreement as set forth in the preceding paragraph hereof, plaintiff has refused to pay, and now refuses to pay, although often requested so to do, the royalties or license fees provided for in said contract

of May 16, 1938, to be paid, to the damage of the plaintiff to the amount of Thirty-five Thousand ($35,000.00) Dollars.

[fol. 16] Wherefore, defendant and cross-plaintiff prays judgment in the amount of Thirty-five Thousand ($35,000) Dollars, and further prays that the defendant and cross-plaintiff may have such other and further relief as to the court seems meet and just.

Hugh M. Moris, Attorney for Defendant, Dupont Bldg., Wilmington, Delaware. Howard Streeter —Wiley, Streeter & Ford, Attorney for Defendant, 1925 Dime Bank Bldg., Detroit, Michigan.

Receipt of a copy of the foregoing Answer is hereby acknowledged this 5th day of May, 1941.

E. Ennalls Berl, Attorney for Plaintiff.

[fol. 17] In United States District Court

Reply of Plaintiff to Answer—Filed May 24, 1941

Plaintiff, The Timken-Detroit Axle Company, for its reply to the matters set forth in the Answer and Counterclaim says:

Reply to Defendant's Answer

1. For its reply to paragraph 11 of the answer, plaintiff denies that all of the transfer cases manufactured and sold by it embody the principles and features of said United States Letters Patent No. 2,173,044; denies that it has arbitrarily refused to pay royalties on all transfer cases made by it; and alleges that it has paid all royalties on transfer cases made by it as required by said license agreement, and that it has manufactured under and claimed to have rightfully manufactured under said patent only such transfer cases made by it as are within the scope of said agreement.

2. For its reply to paragraph 15 of the answer, plaintiff admits that it is a licensee of the defendant under the terms of a license agreement dated May 16, 1938, admits that the agreement covers a license under said patent, denies that the patent referred to in said license has never been declared invalid in any part, denies that said license

agreement is in full force and effect because of the admitted invalidity of at least certain of the claims of said patent, denies that plaintiff is and was at the time of commencement of this action exercising all its rights and privileges under said license agreement, and denies that plaintiff wrongfully withholds the payment of royalties thereunder; and plaintiff alleges that said license agreement by its terms requires plaintiff to pay royalties from and after the date of issue of said Letters Patent on "Transfer Cases" made by plaintiff which embody improvements in Auxiliary Transmission for Four Wheel Drive Automotive Vehicles invented by said Frank W. Ruggles and Charles D. Smith, [fol. 18] and which are disclosed in said Letters Patent and dominated by a claim or claims thereof, that it has paid all royalties due and payable under the terms of said agreement; and plaintiff further alleges that defendant has declared the invalidity of said patent at least in part by its improper disclaimer filed December 4, 1940.

Reply to Counter-Claim

3. For reply to paragraph 1 of the counter-claim, plaintiff admits the execution on May 16, 1938 of a license agreement between the parties, denies manufacturing under the terms of said license agreement during the pendency of the application for said patent and that it was so manufacturing on the date of issuance of said patent, to-wit, September 12, 1939, and that it has continuously so manufactured and is now so manufacturing; and alleges that plaintiff manufactured certain transfer cases under certain of the terms of said license during the pendency of the application for patent and that it was so manufacturing on the date of issuance of said patent and that it has continuously so manufactured and is now so manufacturing; and plaintiff further alleges that the parties to said agreement, ever since issuance of said patent, have been in disagreement as to the terms of said license, particularly as to the provisions under which plaintiff agreed to pay royalties.

4. For reply to paragraph 2 of the counter-claim, plaintiff denies having manufactured under said license agreement as alleged, denies that it has refused to pay, or now refuses to pay, any royalties or license fees provided for in said contract of May 16, 1938, and denies that defendant

has been damaged to the amount of Thirty-five Thousand (35,000.00) Dollars or any amount whatsoever by any action of the plaintiff, and alleges that the agreement of May 16, 1938 bound plaintiff to pay royalties only under certain limited conditions as set forth in paragraph 2 of [fol. 19] this reply, and that plaintiff has paid all royalties due pursuant to said agreement and is now willing to pay any royalties or license fees as required by this agreement which may hereafter become due.

First Defense to Defendant's Counter-Claim

5. For a further defense to defendant's counter-claim, plaintiff alleges that the agreement of May 16, 1938 was entered into pursuant to the settlement of an interference as alleged in paragraphs 6, 7, and 8 of the complaint and prior to the issuance of said Ruggles and Smith Patent No. 2,173,044 and without knowledge of the scope of the claims which might subsequently be obtained from the Patent Office, that the provision providing for the payment of royalties by plaintiff was limited, therefore, to require the payment of royalties only on "Transfer Cases" made by plaintiff which embodied improvements in Auxiliary Transmission for Four Wheel Drive Automotive Vehicles actually invented by said Frank W. Ruggles and Charles D. Smith, and which are disclosed in said Letters Patent and dominated by a claim or claims thereof and that in view of the prior art patents as pleaded in paragraph 15a of the complaint and the prior public uses as pleaded in paragraph 15b of the complaint the claims of said Ruggles et al. Letters Patent are wholly invalid or of such limited valid scope that none of the "Transfer Cases" made by plaintiff are dominated by said claims and for this reason no royalties are due defendant from plaintiff under the terms of said agreement.

Second Defense to Defendant's Counter-Claim

6. For a further defense to defendant's counter-claim, plaintiff alleges that defendant has declared the invalidity of said patent at least in part by its improper disclaimer filed December 4, 1940, that by reason of said invalid disclaimer said Letter Patent No. 2,173,044 is invalid and [fol. 20] plaintiff's obligation to pay royalties or license fees

under the terms of said contract of May 16, 1938 has been extinguished.

Wherefore, the plaintiff prays that said counter-claim may be dismissed with costs to the plaintiff.

E. Ennalls Berl, Attorney for Plaintiff, Delaware Trust Building, Wilmington, Delaware.

Of Counsel: William A. Strauch, Strauch & Hoffman, 1001 Fifteenth Street, N. W., Washington, D. C.

Service of a copy of the foregoing Reply is hereby acknowledged this 23rd day of May, 1941.

Hugh M. Morris, Attorney for Defendant.

[fol. 21] In United States District Court

Amendment to Plaintiff's Complaint and Reply—Filed May 15, 1942

Now comes plaintiff, by its attorneys, saving and reserving to itself all manner and benefit of its complaint and its reply to defendant's answer and counter-claim heretofore filed herein and not abandoning the same, and hereby amends its complaint and reply by correcting inaccuracies therein and adding the following further defenses to those of record:

Amendment to Complaint

23. Plaintiff, for its further complaint, alleges that defendant was, by defendant's own admission, aware on December 3, 1940 that Frank W. Ruggles and Charles D. Smith were not the first inventors of the subject matter of claim 10 of Letters Patent No. 2,173,044 in suit; that defendant was aware on December 3, 1940 that said claim 10 was invalid over the patent to Church No. 1,253,670; that, in a letter dated December 3, 1940, defendant represented to plaintiff that a disclaimer altering the scope of said claim 10 had been filed in the Patent Office; that defendant has never filed any disclaimer in Letters Patent No. 2,173,044 in suit; that defendant is now holding out to the public that said claim 10 is valid; that, defendant, by reason of its unreasonable neglect and delay and failure to file a disclaimer as to claim 10 in Letters Patent No. 2,173,044, has

deprived itself of the benefits of R. S. 4917, so that Letters Patent No. 2,173,044 is void in law; and that plaintiff, through defendant's fault, has lost all possible benefits and rights under the license set forth in paragraph 8 of Count I of the Complaint herein.

Amendment to Reply

7. For a further defense to defendant's counter-claim, plaintiff alleges that by reason of defendant's unreasonable [fol. 22] neglect and delay and failure to file a disclaimer as to claim 10 of Letters Patent No. 2,173,044 after defendant became aware that said claim 10 was invalid, said Letters Patent No. 2,173,044 is wholly invalid and void in law, and plaintiff's obligation to pay royalties or license fees under the terms of said contract of May 16, 1938 has been extinguished.

Wherefore plaintiff prays that Letters Patent No. 2,173,044 be adjudged by this Honorable Court to be wholly invalid, void and unenforceable against plaintiff.

William A. Strauch, Counsel for Defendant, 1001 Fifteenth Street, N. W., Washington, D. C.

Strauch & Hoffman, of counsel, 1001 Fifteenth Street, N. W., Washington, D. C.

[fol. 23] In United States District Court

Defendant's Answer to Amendments to Plaintiff's Complaint—Filed July 13, 1942

Defendant, Alma Motor Company, for answer to matters set forth in the Amendments to Plaintiff's Complaint, says:

23. For answer to Paragraph 23, defendant admits that it has not filed any disclaimer of any claim in the Ruggles and Smith Patent No. 2,173,044, and admits that it now represents and has always represented that all claims of the Ruggles and Smith patent-in-suit are good and valid in law, but denies each and every of the other allegations contained therein.

24. For answer to Amendments to Plaintiff's Pleadings made in open court on the last day of the hearing, May 22,

1942, (Rec. pp. 785, 786) defendant denies each and every of the allegations therein contained, and specifically denies that the Ruggles and Smith invention was completely described in the typewritten prospectus concerning which the witness Armstrong testified; denies that such typewritten prospectus was such a publication of invention by defendant's predecessor as to invalidate the invention described and claimed in the Ruggles and Smith patent-in-suit; denies that the testimony of the witness Kysor is derogatory of or harmful to the invention described and claimed in the Ruggles and Smith patent-in-suit; denies that there was any "rule" announced by the case of Muncie Gear Works, Inc. v. Outboard Marine & Mfg. Co. et al., 86 Law Ed. 740, that relates to the wording of the specification and claims of Letters Patent, and asserts that the specification and claims of the Ruggles and Smith patent-in-suit describes and claims the invention in language approved by the Patent Office and in full accord with the requirements of Revised Statute 4888.

[fol. 24] Wherefore, the defendant prays that said Amended Complaint may be dismissed with costs to defendant.

S. Samuel Arsht, Attorney for Defendant, DuPont Building, Wilmington, Delaware.

George Rex Frye, Counsel for Defendant, 1403 Ford Building, Detroit, Michigan.

Receipt of a copy of the foregoing Answer to Amendments to Plaintiff's Complaint is hereby acknowledged this 13th day of July, 1942.

E. Ennalls Berl, Attorney for Plaintiff.

[fol. 25] In United States District Court

Proposed Findings of Fact and Conclusions of Law Submitted by Plaintiff

Findings of Fact

1. Plaintiff, The Timken-Detroit Axle Company, is a corporation of the State of Ohio.

2. Defendant, Alma Motor Company, is a corporation of the State of Delaware.

3. The subject matter involved in Count I of the complaint exceeds $3,000.00.

4. Count II of the complaint raises a substantial question under the patent laws.

5. The Ruggles and Smith application Serial No. 7,751 (for the patent in suit), as originally filed, did not claim the subject matter of the interference, which included claims 5 to 12 of patent 2,173,044 in suit, except in combination with the clutch for disconnecting the front wheels.

6. The first time that the subject matter of claims 5 to 12 was alone claimed in the Ruggles and Smith application was in the amendment of May 23, 1936.

7. Plaintiff, defendant and one Arthur W. Herrington settled Interference 73,919 which was declared by the Patent [fol. 26] Office on February 12, 1937 and involved the application of plaintiff's assignor, Beverly W. Keese and an application of Arthur W. Herrington, by agreements and understandings reached at a conference at the Book-Cadillac Hotel in Detroit.

8. Pursuant to these agreements and understandings, all parties involved in Interference 73,919 disclaimed the interference counts anticipated by the 1931 use of the two-speed, Wis. T-9, auxiliary transmission or transfer case of PX-82.

9. In addition to the Wisconsin T-9 use, the representatives of the plaintiff and defendant, at the conference at the Book-Cadillac, considered the transmission of the Church patent 1,253,670 of PX-4, the two-speed auxiliary transmission or transfer case of the Automotive Industries Publication, PX-54, the two-speed, auxiliary transmission or transfer case of Spicer print 04501-SKT-08869, PX-107, and the 1933 use of the two-speed Spicer, auxiliary transmission or transfer case of PX-28.

10. The Army Engineers at the Quartermaster Base at Holabird Quartermaster Depot, Baltimore, Maryland, used the construction of the Automotive Industries Publication, PX-54, as early as 1925, designed the Wisconsin T-9 construction of PX-82 late in 1930 or early in 1931 and used it late in 1931 and suggested the Spicer construction of PX-28, built in November, 1933, in April, 1933.

11. Claims 1 to 12 of the patent in suit purport to define improvements in two-speed, auxiliary transmissions or transfer cases.

[fol. 27] 12. The Wisconsin T-9, two-speed, auxiliary transmission or transfer case of PX-82 embodies all of the alleged improvements defined in claims 1 to 12 of patent 2,173,044 in suit although the T-9 construction may not be as simple and compact as the construction shown in the patent.

13. The Spicer, two-speed, auxiliary transmission or transfer case of PX-28 embodies all of the elements defined by claims 1 to 12 of patent 2,173,044 in suit, or their structural equivalents, and operates in substantially the same manner as the patented construction. Detailed differences in the arrangement of the gears and the speed changing clutch are not specified in the claims.

14. The two-speed, auxiliary transmission or transfer case shown in the Automotive Industries Publication of PX-54 is equally as simple and compact and employs gearing located in the same manner as the construction defined by claims 5 to 12 of patent 2,173,044 in suit and accomplishes the same result as the structure defined by these claims.

15. Plaintiff's representatives at the Book-Cadillac conference asserted that the remaining counts of Interference 73,919, claims 5 to 12 of patent 2,173,044 in suit, were anticipated or failed to define a patentable improvement over the prior art and uses then under consideration and in particular relied upon the Spicer use of PX-28.

16. Defendant's representatives at the Book-Cadillac conference asserted that the remaining counts of Interference 73,919, claims 5 to 12 of patent 2,173,044 in suit, were not [fol. 28] anticipated by the Spicer use of PX-28 or the other prior art then under consideration and that the subject matter of these counts or claims defined patentable improvements over this alleged prior art.

17. Defendant's representatives at the Book-Cadillac conference asserted that the Spicer use of PX-28, even if prima facie sufficient to invalidate the remaining counts, claims 5 to 12 of patent 2,173,044 in suit, was not in fact

a legal bar since the Ruggles and Smith dates of invention antedated this use.

17 (a). Defendant did not bring the prior art known to it after the Book-Cadillac Conference, and unknown to the Patent Office, to the Examiner's attention before patent 2,173,044 in suit issued.

18. Because of defendant's preliminary statements, the prior filing date of the Ruggles and Smith application for the patent in suit and defendant's assertions of patentability over the prior art under consideration and with knowledge of this prior art, the plaintiff, The Timken-Detroit Axle Company, elected to save the expense of prosecuting Interference 73,919 to a conclusion by conceding priority of invention of the subject matter of claims 5 to 12 of Ruggles and Smith and taking the non-exclusive license, PX-3 or PX-38.

19. The license agreement, PX-3 or PX-38, involved in this controversy was drafted by counsel for plaintiff and followed closely the wording of a proposed license agreement, PX-37, submitted by defendant but included additional clauses intended to protect plaintiff against invalid [fol. 29] or improper patent claims that might be obtained in the Ruggles and Smith application.

20. The sole consideration passing from defendant to plaintiff under the agreement, PX-3 or PX-38, was the right to make, sell and use auxiliary transmissions or transfer cases embodying improvements invented by Ruggles and Smith and disclosed in application Serial No. 7,751, the application which matured into patent 2,173,044 in suit.

21. The subject matter of claims 5 to 12 of patent 2,173,044 in suit was disclosed to defendant by the plaintiff in January, 1934, more than two years prior to the amendment of May 23, 1936, by furnishing prints of plaintiff's T-32 transfer case, PX-34, to defendant.

22. The subject matter of claims 5 to 12 of patent 2,173,044 in suit was in public use by the Army in Holabird Quartermaster Base, Baltimore, Maryland, in the Dodge and White trucks employing plaintiff's T-32 transfer case, PX-34, as early as January, 1934.

23. Defendant's proofs as to the earliest date for possession of the alleged invention of the subject matter of claims 5 to 12 by Ruggles and Smith is indefinite and it is not clearly established that this date is prior to the disclosure of PX-34 to defendant by plaintiff.

24. Plaintiff's proofs as to the work of Ruggles and Smith indicate that the two-speed auxiliary transmission or transfer case defined by claims 5 to 12 of the patent in suit was not deemed worthwhile by Ruggles and Smith [fol. 30] as late as March, 1934, and that Ruggles and Smith were working on a single speed, auxiliary transmission or transfer case at that time.

25. The agreement, PX-3 or PX-38, provides that plaintiff shall pay royalties, from and after issuance of a patent to Alma with claims dominating transfer cases made by Timken, on every auxiliary transmission or transfer case made by it and embodying improvements invented by Ruggles and Smith and disclosed in application Serial No. 7,751, the application which matured into patent 2,173,044 in suit.

26. The auxiliary transmissions or transfer cases of PX-57 to PX-79 made by plaintiff follow the construction of the Automotive Industries Publication, PX-54, more closely than the construction of patent 2,173,044 in suit.

27. The transfer cases of PX-94a to PX-94g made by plaintiff are single-speed, auxiliary transmissions or transfer cases rather than two-speed auxiliary transmissions or transfer cases as disclosed and claimed by patent 2,173,044 in suit.

28. The transfer cases of PX-91d, PX-91e, PX-91i, PX-91j and the T-32-17 transfer case of PX-90 drive the rear wheels only and are used in 6 x 4 trucks and for this reason differ from the construction of patent 2,173,044 in suit wherein the front and rear wheels are driven and the construction is used in a 4 x 4 truck.

29. The transfer cases T-32-13-2, T-32-13-4, T-32-13-5 and T-32-13-6 of DX-21 (Class A-3) and DX-21 (Class A-4) do not drive the rear wheels from an output shaft [fol. 31] aligned with the input shaft as in the construction of patent 2,173,044 in suit but follow the teaching of the

Automotive Industries Publication, PX-54, by driving the front and rear wheels from the opposite end of the same shaft, a shaft like d, b of PX-54.

30. The transfer cases of PX-91k (DX-21, Class A-6) follow the Automotive Industries Publication, PX-54, in that the sliding gear on the input shaft engages either a gear rota-bly mounted on the input shaft or a gear carried by the countershaft rather than a gear formed integrally with an aligned output shaft as in patent 2,173,044 in suit and furthermore employs a further extra gear on the countershaft corresponding roughly to the extra middle gear of the Wisconsin T-9 use of PX-82 and these transfer cases differ in construction and mode of operation from that described and claimed in patent 2,173,044 in suit.

31. The transfer cases T-32-2 and T-32-9 of PX-90 have not been manufactured since patent 2,173,044 in suit issued.

32. The automatic front wheel clutch employed in the transfer cases T-43-P-1 and T-43-V-1 of PX-91h (DX-21, Class A-5) is different in construction and mode of operation from the front wheel clutch described and claimed in patent 2,173,044 in suit.

33. The remaining auxiliary transmissions or transfer cases made by plaintiff, namely PX-34; the T-32-13-1 of DX-21 (Class A-3); PX-91b; PX-91c; PX-91f; the T-43-G and T-43-H of DX-21 (Class A-1); the T-32-13, T-32-14, [fol. 32] T-32-14-1, T-32-15 and T-32-16 of PX-90; and the T-32-17-1 and T-32-17-2 of DX-21 (Class A-2), do not employ the internal, front wheel clutch described in patent 2,173,044 in suit and claimed in claims 1 to 4.

34. The Huff patent 1,073,650 of PX-4 is a power transmitting mechanism designed to drive the rear wheels of an automotive vehicle and employs an input shaft having one end journalled in a gear formed on the end of the output shaft to the rear axle, a countershaft, gears and a slidable element carried by the input shaft for directly engaging internal teeth of the output shaft gear for driving the input shaft and output shaft at the same speed or engaging an external toothed gear on the countershaft to drive the output shaft indirectly from the input shaft

through a second gear carried by the countershaft and meshing with external teeth on the output shaft gear.

35. The Church patent 1,253,670 of PX-4 is an auxiliary power transmitting mechanism for driving a hoisting mechanism carried by an automotive vehicle and employs an input shaft having one end journalled in a gear formed on the end of the output shaft, a countershaft, gears and a slidable element carried by the input shaft for directly engaging internal teeth of the output shaft gear for driving the input and output shaft at the same speed or engaging an external toothed gear on the countershaft to drive the output shaft indirectly from the input shaft through a second gear carried by the countershaft and meshing with external teeth on the output shaft gear.

36. Defendant on December 3, 1940 acknowledged that claim 10 of patent 2,173,044 in suit was affected by the [fol. 33] Church patent 1,253,670 and stated that a disclaimer has been filed.

37. No disclaimer of claim 10 of patent 2,173,044 in suit has been filed.

38. The Reif patent 1,296,216 of PX-4 is a power transmitting mechanism designed to drive both the front and rear wheels of an automotive vehicle and employs an input shaft having one end journalled in a gear formed on the end of an axially aligned, primary output shaft to the rear axle, a secondary output shaft to the front axle disposed parallel to the input and primary output shafts, a countershaft disposed parallel to and in the plane of the input and output shafts and gearing for simultaneously transmitting power from the input shaft to the output shafts and a sliding gear to disconnect the power input shaft from the power output shafts.

Conclusions of Law

1. Counts I and II of the Complaint assert justiciable controversies within the meaning of the Federal Declaratory Judgment Act of June 14, 1934, Amended, Section 274-d Judicial Code; U. S. C. Title 28 Section 400.

2. This Court has jurisdiction of both the subject matter and parties under Counts I and II of the Complaint and under the Counterclaim.

3. The agreement, PX-3 or PX-38, is unenforceable against plaintiff and void since defendant, in law, had and [fol. 34] has no monopoly and plaintiff's agreement to pay for a license to be relieved from the consequences of defendant's monopoly was made because of the asserted monopoly and, therefore, is not supported by any consideration flowing from defendant to plaintiff.

3(a) The public interest demands that one who seeks to ...e a patent monopoly out of the public domain, and who becomes aware of pertinent prior art unknown to the Patent Office, has the duty of assuming the burden of calling said art to the attention of the Patent Office representing the public interest. Defendant in this case had said duty after the settlement of Interference No. 73,919.

3(b) Defendant's representatives failed to discharge the duty that rested on them to bring pertinent prior art known to defendant to the attention of the Examiner before the patent in suit issued, and defendant is in no position to ask a Court in equity to refuse consideration of said art on technical grounds.

4. Plaintiff is not estopped to contest inventorship of the subject matter of claims 1 to 12 of Ruggles and Smith patent 2,173,044 in suit or validity of claims 1 to 12 of the patent in suit by reason of its concession of priority in Interference 73,919 or the license agreement, PX-3 or PX-38, because of the public interest, *Muncie Gear Works, Inc. et al. v. Outboard, Marine and Manufacturing Co.*, 86 L. Ed. 740 (53 U. S. P. Q. 1). *Morgan v. Daniels*, 153 U. S. 120, 14 S. Ct. 772, 38 L. Ed. 657; *Standard Water Systems Co. et al. v. Griscom-Russell Co.*, 278 F. 703 (cer. den. 259 U. S. 580); *Lorenz v. Colgate-Palmolive-Peet Co.*, 122 F. (2d) 875 (51 U. S. P. Q. 72); *Russell v. J. P. Seeburg Corporation*, 123 F. (2d) 509 (51 U. S. P. Q. 306); *McElrath v.* [fol. 35] *Industrial Rayon Corp. et al.*, 123 F. (2d) 627 (51 U. S. P. Q. 341; Case 2); *American Graphophone Co. v. Gimbel Bros.*, 234 F. 344; and *Thomson Spot Welder Co. v. Ford Motor Co.*, 281 F. 680.

5. Even if valid and enforceable the terms of the Timken-Alma license agreement, PX-3 or PX-38 accord plaintiff the right to contest the inventorship of claims 1 to 12 (all of the claims) of Ruggles and Smith patent 2,173,044

in suit. *Corpus Juris*, Vol. 48, Sec. 416, page 268, and *Baldwin Rubber Co. v. The Paine & Williams Co.*, 107 F. (2d) 350 (43 U. S. P. Q. 350).

6. The subject matter of claims 1 to 4 of patent 2,173,044 in suit is unpatentable since this subject matter is merely the equivalent of the Wisconsin T-9 prior use construction of PX-82 and the Spicer prior use construction of PX-28 developed and used by the Army Engineers at Holabird Quartermaster Base at Baltimore, Maryland, about 1930-1931 and March to November, 1933, respectively.

7. Ruggles and Smith did not invent the subject matter of claims 5 to 12 of patent 2,173,044 in suit since this subject matter was disclosed to Ruggles and Smith by plaintiff and was in public use by the Army at Holabird Quartermaster Base, knowledge of which was accessible to Ruggles and Smith at least six months prior to the earliest date of knowledge and use proved for them.

8. Claim 6 of the Ruggles and Smith patent 2,173,044 in suit is anticipated by the patent to Reif, 1,296,216 of PX-4.

[fol. 36] 9. Claim 10 of the Ruggles and Smith patent 2,173,044 in suit is anticipated by the patent to Church, 1,253,670 of PX-4.

10. Claims 11 and 12 of the Ruggles and Smit patent 2,173,044 in suit is anticipated by the Spicer prior use of PX-28.

11. Claims 1 to 4 of the Ruggles and Smith patent 2,173,044 in suit are invalid since they fail to define any invention over the Automotive Industries Publication, PX-54, in view of the Wisconsin T-9 prior use of PX-82, or the Spicer prior use of PX-28, or the Wisconsin prior use of PX-83, or the Wisconsin prior use of PX-92. *Corpus Juris*, vol. 48, Sec. 73, pages 69 and 70.

12. Claims 5 to 12 of the Ruggles and Smith patent 2,173,044 in suit are invalid since they fail to define any invention over the Automotive Industries Publication, PX-54, in view of the Huff patent 1,075,650 of PX-4, or the Wisconsin T-9 prior use of PX-82, or the Spicer prior use of PX-28, or the Wisconsin T-32 prior use of PX-34,

or the Wisconsin T-35 prior use of PX-92. *Corpus Juris*, Vol. 48, Sec. 73, pages 69 and 70.

13. Claims 1 to 12 of the Ruggles and Smith patent 2,173,044 in suit are invalid since they fail to define any invention over the Spicer prior use of PX-28. *Corpus Juris*, Vol. 48, Sec. 73, pages 69 and 70.

14. The only difference over the prior art defined by claims 1 to 12 of the Ruggles and Smith patent 2,173,044 in suit are within the expected skill of the ordinary me-[fol. 37] chanic at the time of the alleged invention by Ruggles and Smith. *Corpus Juris*, Vol. 48, Sec. 73, pages 69 and 70.

15. Ruggles and Smith patent 2,173,044 is void and of no force and effect because the subject matter claimed was not invented by Ruggles and Smith.

16. Ruggles and Smith patent 2,173,044 is invalid for failure to define any invention over the prior art.

17. Ruggles and Smith patent 2,173,044 is void for failure to promptly file a disclaimer of claim 10. *Revised Statutes* 4917 and 4922 and *Ensten v. Ascher and Co.*, 282 U. S. 445.

18. Claims 5 to 12 of Ruggles and Smith patent 2,173,-044 are invalid because of the public use, or sale, of devices embodying the asserted invention more than two years before said claims were presented to the Patent Office. *Revised Statute* 4886; *Muncie Gear Works, Inc. et al. v. Outboard, Marine and Manufacturing Co.*, 86 L. Ed. 740 (53 U. S. P. Q. 1).

19. Plaintiff is not obligated to pay any royalties under the agreement, PX-3 or PX-38, because patent 2,173,-044 upon which the agreement is based is void and invalid.

20. Even if patent 2,173,044 is assumed to be valid and enforceable, plaintiff's transfer cases PX-57 to PX-79; PX-94a to PX-94g; T-32-17 of PX-90; PX-91d; PX-91e; PX-91i; PX-91j; T-32-13-2, T-32-13-4, T-32-13-5 and T-32-[fol. 38] 13-6 of DX-21 (Class A-3) and DX-21 (Class A-4); T-79, T-79-1 and T-79-4 of PX-91k and DX-21 (Class A-6); do not infringe any of the claims of patent 2,173,044 in suit. *Westinghouse v. Boyden*, 170 U. S. 537.

21. Even if patent 2,173,044 is assumed to be valid and enforceable, plaintiff's transfer cases of PX-91h and DX-21 (Class A-5) do not infringe claims 1 to 4 of patent 2,173,044 in suit. *Westinghouse v. Boyden*, 170 U. S. 537.

22. Even if patent 2,173,044 is assumed to be valid and enforceable, plaintiff's auxiliary transmissions or transfer cases, PX-34; the T-32-13-1 of DX-21 (Class A-3); PX-91b; PX-91c. PX-91f; the T-43-G and T-43-H of DX-21 (Class A-1); the T-32-13, T-32-14, T-32-14-1, T-32-15 and T-32-16 of PX-90; and the T-32-17-1 and T-32-17-2 of DX-21 (Class A-2) do not infringe claims 1 to 4 of patent 2,173,044 in suit. *Westinghouse v. Boyden*, 170 U. S. 537.

23. Even if patent 2,173,044 in suit and the agreement, PX-3 or PX-38, are assumed to be valid and enforceable, plaintiff is not obligated under the terms of the agreement to pay royalties on the auxiliary transmissions or transfer cases of PX-57 to PX-79; PX-94a to PX-94g; the T-32-17 of PX-90; PX-91d; PX-91e; PX-91i; PX-91j; T-32-13-2, T-32-13-4, T-32-13-5 and T-32-13-6 of DX-21 (Class A-3) and DX-21 (Class A-4); the T-79, T-79-1 and T-79-4 of PX-91k and DX-21 (Class A-6) made, sold and/or used by it.

The foregoing proposed findings and conclusions it is submitted are all warranted by the record, and are respectfully asked.

[fol. 39] IN UNITED STATES DISTRICT COURT

Defendant's Proposed Findings of Fact and Conclusions of Law

DEFENDANT'S PROPOSED FINDINGS OF FACT

1. This action is brought under the Federal Declaratory Judgment Act (Sec. 274-d Judicial Code—Title 28 Sec. 400).

2. Plaintiff is an Ohio corporation with its factory and principal place of business in Detroit, Michigan. Defendant is a Delaware corporation, with its factory and principal place of business at Alma, Michigan. Defendant is

the owner of the Ruggles and Smith patent for "Auxiliary Transmission Mechanism for Four-Wheel-Drive Automotive Vehicles", No. 2,173,044, and plaintiff is a licensee under such patent.

3. The license was granted in May, 1938, during proceedings for settlement of Interference No. 73,919, then being contested in the Patent Office, and involving the application of Ruggles & Smith (owned by defendant), an application filed by B. W. Keese (owned by plaintiff), and an application filed by A. W. Herrington (owned by Marmon-Herrington Company of Indianapolis, Indiana). Claims 5 to 12 of the Ruggles and Smith patent were counts in such Interference, and concessions of priority of invention of the subject matter of these claims 5 through 12 were filed in the Patent Office by plaintiff and Herrington in favor of defendant. Seven other counts were included in this Interference at the time of the settlement negotiations, but, at a conference in Detroit, several prior art patents and prior uses were studied by attorneys representing the interfering parties, and it was mutually agreed by such attorneys that such seven counts were too broadly worded to be valid over the prior art. The attorneys mutually agreed to disclaim these two broadly worded counts, and each party to the Interference filed such a disclaimer. Among the prior uses considered at the conference, were [fol. 40] two transfer cases made by a subsidiary company of plaintiff—Wisconsin Axle Company—and known as Timken T-7 and T-9 transfer cases, and a transfer case made in late 1933 by the Spicer Manufacturing Company, and among the prior patents discussed at the conference was the patent to Church, No. 1,253,670.

4. The terms of the license agreement were decided upon at said conference, plaintiff accepting a prof-erred nonexclusive license and agreeing to pay the sum of $1500.00 immediately and royalties, graduated according to size of vehicles using Timken transfer cases, on each licensed transfer case made by plaintiff, such payment of royalties to begin when the Ruggles and Smith patent issued to defendant "with claims dominating Transfer Cases made by Timken". Plaintiff's attorneys drew the license agreement, at the time of signing thereof, the $1500.00 was paid by plaintiff to defendant.

5. The Ruggles and Smith application involved in said interference issued as patent No. 2,173,044, on September 12, 1939, with claims 5 through 12 thereof identical in language with the eight counts of the interference concerning which concessions of priority had been filed by plaintiff and Herrington. Written notice of its issuance was given plaintiff, and plaintiff was requested to mark its licensed transfer cases with patent notice to the public. Instructions were given regarding patent marking by plaintiff's attorney to Timken employees.

6. Periodical royalty reports were made by plaintiff to defendant, and royalties were paid on some of the Timken transfer cases included in such reports. Plaintiff refused, however, to pay royalties on other Timken transfer cases listed in such reports, giving as a reason for its refusal that they had been advised by its attorneys that certain claims of the Ruggles and Smith patent were invalid. No details concerning such alleged invalidity was furnished to defendant in writing, but in telephonic and oral conversations be- [fol. 41] tween attorneys, reference was made to the same Spicer transfer case and Church patent that had been previously considered at the Detroit conference where the interference was settled. In such conversations, defendants steadfastly maintained that plaintiff had no right to contest the validity of the licensed patent while remaining a licensee.

7. Blueprints of the transfer cases made and sold by plaintiff since the issuance of the Ruggles & Smith patent are shown herein as Exhibits PX-57 to PX-79. Defendant selected from among these blueprints the following transfer cases as those on which royalties are claimed under the license agreement, specifying the claims of the Ruggles & Smith patent which cover each of selected transfer cases, to wit:

(A-359) T-32
(A-468) T-32-9
(A-477) T-43-G & T-43-H
(A-595) T-32-15-1
(A-388) T-32-2
(A-604) T-32-17-1
(A-635) T-32-17-2
(SKT-6338) T-32-13-1 & T-32-13-2

(A-582) T-32-13-3
(A-605) T-32-13-1
(A-596) T-32-13-4
(A-612) T-32-13-2 & T-32-13-6
(A-626) T-43-P-1
( ) T-43-V-1
(A-631) T-79 & T-79-1 & T-79-4

Plaintiff thereupon admitted that each of the transfer cases selected by defendant was covered by one or more claims of the Ruggles & Smith patent and that such patent would be infringed thereby.

8. Royalties were paid by plaintiff to defendant on certain of the selected transfer cases, but have not been paid on the remainder of the selected transfer cases.

[fol. 42] DEFENDANT'S PROPOSED CONCLUSIONS OF LAW

1. Plaintiff is a licensee under the Ruggles & Smith patent No. 2,173,044, and has been since the issuance of such patent on September 12, 1939.

2. While remaining a licensee plaintiff has no right to contest the validity of the Ruggles & Smith patent. (Kinsman v. Parkhurst, 18 Howard 289; U. S. v. Harvey Steel Co., 198 U. S. 310; Eskimo Pie Corp. v. Arctic, 15 Fed. (2d) 853; Jefferson Elec. Co. v. Sola Elec. Co., 125 Fed. (2d) 322; Engineering Co. v. Perryman Elec. Co., 166 Atl. 46.)

3. The license agreement herein, as worded, does not grant to defendant any status different from that of the usual licensee, and particularly does not grant to defendant the right to contest validity of the Ruggles & Smith patent. (Ellis on Patent Assignments and Licenses, p. 490; U. S. v. Harvey Steel Co., 196 U. S. 310; Edison Elec. Co. v. Thackara, 167 P. 530; Eastern States Petroleum Co. v. Universal, 37 U. S. P. Q. 834; Universal Co. v. Scott, 21 Fed. (2d) 346.)

4. The following transfer cases made and sold by plaintiff since the issuance of the Ruggles and Smith patent are dominated by one or more claims of such licensed patent, to wit:

(A-359) T-32
(A-468) T-32-9

(A-477) T-43-G & T-43-H
(A-596) T-32-15-1
(A-388) T-32-2
(A-604) T-32-17-1
(A-635) T-32-17-2
(SKT-6338) T-32-13-1 & T-32-13-2
(A-582) T-32-13-3
(A-605) T-32-23-1
(A-596) T-32-13-4
[fol. 43] (A-612) T-32-13-5 & T-32-13-6
(A-626) T-43-P-1
( ) T-43-V-1
(A-631) T-79 & T-79-1 & T-79-4

5. Plaintiff should pay to defendant a license fee in accordance with the terms of the license agreement on each of the transfer cases listed above manufactured and sold by plaintiff since the issuance of the Ruggles & Smith patent.

6. In those cases where license fees have been withheld by plaintiff, interest should be added beginning from the dates of the royalty reports scheduling the manufacture and sale of such transfer cases on which license fees were withheld. (Crescent Min. Co. v. Wasatch Min. Co., 151 U. S. 317; Curtis v. Innerarity, 47 U. S. 154; Spaulding v. Mason, 161 U. S. 375.)

A judgment shall be prepared by defendant dismissing plaintiff's Bill of Complaint, with costs and expenses to defendant.

SUPPLEMENTARY SUGGESTED CONCLUSIONS OF LAW

7. In addition to the estoppel incident to plaintiff's status of licensee, plaintiff is also estopped to repudiate the position taken by it at the Detroit conference when the patentability and proper wording of eight interference counts identical in wording with present Claims 5 to 12 inclusive of the Ruggles & Smith patent was mutually admitted by all parties present. Reversal of the position then taken by plaintiff, to the detriment of defendant, cannot be tolerated.

8. The Ruggles & Smith patent, and each claim thereof, is valid over all prior art of record herein. No prior patent

or prior use shows the combination of elements recited by the claims of the patent-in-suit in the position disclosed by Ruggles & Smith. The Ruggles & Smith transfer case satisfied a long-felt want and was quickly accepted by the [fol. 44] trade, its commercial success growing steadily from year to year. The attitude of plaintiff in applying for Letters Patent on substantially the same subject matter, vigorously prosecuting such application until the interference, and bringing two motions in such interference prior to the settlement of the interference by concession of priority to Ruggles & Smith with simultaneous acceptance of a license by plaintiff, is strongly indicative of recognition by plaintiff of the merits of the Ruggles & Smith invention.

IN UNITED STATES DISTRICT COURT

OPINION—Filed September 23, 1942

Before KIRKPATRICK, *J.*

In this action the plaintiff, under the Declaratory Judgment Act, asks the Court to determine certain questions of law and fact, arising in connection with the defendant's patent No. 2,173,044 (issued to Ruggles and Smith September 12, 1939) and an agreement by which the plaintiff became a licensee. The patent is for mechanism known as a transfer case—an auxiliary transmission by which the drive of the engine of an automobile truck may be extended to the front axle as well as to the rear. In substance, the relief asked for is that the Court declare that the patent is invalid, that the transfer cases manufactured by the plaintiff do not come within its claims as construed in the light of the prior art, and that, under the license agreement, or, in spite of it, the plaintiff is not bound to pay royalties upon any of the transfer cases now being manufactured by it. The defendant has counterclaimed asking judgment for damages for the plaintiff's failure to pay royalties.

In the early part of 1938, the plaintiff, Timken, the defendant, Alma, and a third company, Harrington, were in interference, each with a patent application for a transfer case. The three devices were essentially the same and [fol. 45] three were 15 counts in the interference. After

some preliminary sparring in the Patent Office, there was a meeting between representatives of the three parties at the Book-Cadillac Hotel in Detroit in May 1938 at which it was agreed that Alma should have the patent and would license the other two when it issued. There are some indications of a general feeling that the patent, even if valid, would not be of outstanding importance and that its ownership was not worth litigating. After the conference, Timken and Harrington formally conceded priority to Alma, Alma disclaimed certain counts of the interference which the parties had agreed were anticipated by prior art which had been produced and studied at the conference, and Alma and Timken executed the license agreement in question, Harrington dropping out because it had come to the conclusion that it did not want to manufacture the cases.

There were actually two contract documents executed, the first on May 16, 1938 and the second on May 26, 1938, but I think they may be considered together as though they were a single license agreement. The second embodied the essential terms of the first, and the parties are apparently in agreement that the recitals in the earlier document should be considered in determining the scope and construction of the later one.

The first question is whether or not Timken is estopped to contest the validity of the patent. I am of the opinion that it is estopped to raise that issue, and therefore will not adjudicate the patent in this proceeding.

The rule that a licensee may not contest the validity of the patent under which he is licensed is well settled and has long been a part of the patent law. In this case Timken endeavors to avail itself of several avenues of escape from the estoppel.

First, Timken contends that this license, by its terms as interpreted in the light of the recitals, intends that the licensee shall be free to contest the patent. I do not so read the agreement. The contention is based on the first [fol. 46] recital of the agreement of May 16 and on Clause IV of the second document which is practically identical with Clause VI of the first document.

The recital, of course, was intended to define the subject matter. It is a statement that Ruggles and Smith have invented certain improvements, which improvements

are further described as transfer cases and identified as the ones disclosed in the Ruggles and Smith application then pending. Then Alma licenses Timken to make, etc. "the said improvements" and Timken agrees to pay royalties upon transfer cases "embodying said improvements." Then there is a clause the meaning of which is that, after the issuance of the patent, the royalties shall be paid only if any of the claims dominate the transfer cases made by Timken. I think it perfectly plain that the intention was to pay royalties on transfer cases coming within the terms of the claims of the patent as issued. I do not think that the incidental use of the word "invented" meant that it was intended the licensee was to be free to contend that his obligation to pay royalties was not coextensive with the issued patent as defined by its claims. Five patent lawyers participated in the conference, and at least two in drawing the agreement. They understood the rule that estops a licensee and certainly would have provided against it in plainer terms than these had that been the intention of the parties. But even if it were possible, by emphasis upon the word "invented", to whittle down the scope of the license to something less than the patent, I should say that the recital estopped Timken to deny that Ruggles and Smith had invented the improvements just as much as the license estops it to contest the validity of the patent.

The assertion in Timken's brief that Alma represented that Ruggles and Smith invented the improvements in question is not entirely correct. Actually, it was as much Timken's assertion as Alma's. Both parties executed the agreement and both agreed to the recital. They had before them practically the same prior art which was presented at the [fol. 47] hearing. As a matter of fact Timken's lawyers knew more about the prior art than Alma did, an important use having been shown to Alma's counsel, for the first time, only a few hours before the conference.

The clause referring to the issuance of a patent with claims dominating transfer cases made by Timken seems to have been inserted, from an excess of caution, to be sure that "said improvements" could not possibly be construed to cover any improvements disclosed by the pending application which might be eliminated or extensively modified in the issued patent. If anything, this clause only serves

to make stronger the inference that the subject matter of the license was improvements as described in the patent claims.

The provision contained in Clause IV does not permit the licensee to contest the validity of the patent. This point is settled by the decision of the Supreme Court of the United States v. Harvey Steel Co., 196 U. S. 310.

Another ground for Timken's contention that it is not estopped is the public interest involved in any adjudication involving the validity of the patent. There have been cases in which public interest has been said to be a justification for allowing a licensee to contest validity but, as pointed out by this Court in Crom v. Cement Gun Company, Civil Action No. 145, in an opinion filed June 25, 1942, but not yet reported, this is only in exceptional cases. Such a case was Standard [illegible] Co., 278 Fed. 703. [illegible] pointed out by this Court in the Crom [illegible] the general rule for the Third Circuit [illegible] circumstances in the present action which req[illegible]ation of the validity of this patent in the public interest. I am not adjudicating its validity. I am merely holding that this plaintiff may not contest it, and I do not think the public is interested in whether Timken pays royalties to Alma or not, which is the only thing at issue here. I might go further and say that an issue which the party who attempts to raise it is [fol. 48] estopped to contest does not present a justiciable controversy under the Declaratory Judgment Act.

Another point made by Timken is that it may contest the patent on a plea of failure of consideration. There are decisions establishing an exception to the rule on that ground, but it takes more than merely an assertion of invalidity or even the fact of invalidity to show failure of consideration. The typical case in which it has been allowed to toll the estoppel is where general competition by unlicensed manufacturers who have gone ahead in disregard of the patent has made it wholly valueless to the licensee.

Although estopped to contest the validity of the patent, a licensee is not precluded from showing the state of the art, for the purpose of construing the claims. If, in the process, the claims should be held to mean something narrower than might appear from the literal reading of them, the licensee is entitled to the benefit of that, on the question

whether or not he must pay royalties. See Westinghouse v. Formica, 266 U. S. 342. This is the rule of the patent law, and it is not affected by reference in this agreement to a patent with claims dominating transfer cases made by Timken. The purpose and meaning of that clause has been pointed out and I think that it has no effect upon the extent of the use which may be made of prior art in this case. That is defined by the general rule in the Formica case.

At this point it may be convenient to dispose of two fact issues, before taking up the question, which of the Timken transfer cases are subject to royalties.

1. I find as a fact that there was no definite agreement on the part of Alma to bring the Spicer use to the attention of the Patent Examiner in the course of further prosecution of the patent. If any suggestion was made, which I rather doubt, it was not with the intention that it should be a definite obligation upon Alma and did not constitute an inducing cause of the agreement. Consequently Alma's failure to bring the Spicer use to the attention of the Patent [fol. 49] Examiner has no effect upon and does not discharge Timken's obligation in respect of royalties.

2. The date of conception of the invention patented by Ruggles and Smith was prior to October 27, 1933. The inventors exercised reasonable diligence from conception to reduction of practice. The Spicer transfer case does not constitute prior art against Ruggles and Smith.

The Spicer transfer case was one of the mechanisms considered as prior art at the Book-Cadillac conference, although Alma's representatives asserted that their invention antedated it. Both the Spicer and the transfer case of the patent were developed in their final form in the latter part of 1933. The date set by the plaintiff for the first public use of Spicer is November 1933 when a White Motor Company truck incorporating the Spicer transfer case was sent to Camp Holabird for test.

To establish a date of conception for the patent in suit a number of blueprints made or used by the inventors were produced (DX-22 and the DX-23 series) from the group in the Alma files on transfer cases. The authenticity and accuracy of the dates on these blueprints has not been questioned. They represent drawings of (1) a complete single-speed transfer case (DX-22), which does not embody

the subject matter of the patent, (2) a complete two-speed transfer case (DX-23V), and (3) various single elements or parts of both, in no particular order as to dates or numbers. The complete single-speed assembly and many of the drawings of parts are undated. A number of the parts could be used only in the single-speed transfer case and those of this class which are dated range from February to August or later in 1933. Some are probably interchangeable and the dates of these range from February to December. Others could be used only in the two-speed transfer case and most of these are either undated or were drawn in December, as was the only dated drawing of the complete two-speed assembly. One drawing, however, (DX-23K) of the shiftable gear on the upper shaft of the [fol. 50] two-speed transfer case is dated October 27, 1933. This part could be used only in the two-speed transfer case and is of the same dimensions as the sliding gear in the December 29 drawing of the whole assembly. Both drawings also specify "20 teeth 6 pitch". While the parts in the drawings of the whole two-speed assembly are numbered, and some of the drawings of individual parts are numbered to correspond, the blueprint of the sliding gear of October 27, either is not numbered or the shop number is obscured. However, there can be no doubt whatever of the nature of the individual drawing, and the Ruggles and Smith date of the conception must, therefore, have been prior to October 27.

It seems to me that the whole question of the priority of Spicer is more or less academic, and I have gone into it only because an Appellate Court might think otherwise. Each of the Timken devices upon which royalties are claimed are so much nearer to the Ruggles and Smith construction than they are to Spicer's, that, even if limited by Spicer as prior art, the claims would still include most of the Timken cases.

Coming now to the question of applying the claims to the transfer cases manufactured by Timken:

Under the rule of the Formica case, supra, "* * * the state of the art can not be used to destroy the patent and defeat the grant, because the assignor is estopped to do this. But the state of the art may be used to construe and narrow the claims of the patent, conceding their validity.

The distinction may be a nice one but seems to be workable." In practical application this must mean that the scope of the claims shall be coextensive with their novelty. The estopped eliminates the question of invention and leaves novelty as the criterion, and if a claim is not anticipated it is immaterial whether or not its novelty constitutes an inventive step. To this extent, at least, the distinction is workable.

Before proceeding with the consideration of the particular claims, five of the twenty Timken transfer cases [fol. 51] upon which royalties are claimed by the defendant may be entirely eliminated from the general discussion and four others reserved for special consideration.

(1) T-79, T-79-1 and T-79-4 do not infringe any of the claims as limited by the prior art. These transfer cases do not employ the Ruggles and Smith gearing and are more complex, thus falling short of the simplicity which is, perhaps, the essential and underlying novelty of the patent. See answer to the plaintiff's 12th request for fact finding.

(2) During the course of the trial, the defendant's attorney made the unqualified statement that royalties were not claimed upon any transfer cases which did not include a frontwheel drive. This declaration must be taken as binding upon the defendant, and thus T-32-17-1 and T-32-17-2 (which do not drive front wheels from the secondary output shaft but are adapted for use in a 6 x 4 truck where the four rear wheels are driven) drop out of the case. With these devices out, it makes no difference whether or not claims 6 to 12 are limited to front-wheel drive constructions, as the plaintiff contends they should be.

(3) The following devices will be reserved for consideration in connection with claim 10: T-32-13-2, T-32-13-4, T-32-13-5 and T-32-13-6, in which there is no internal declutch as required by the first four claims and the driven upper shaft (in one end of which the input shaft is piloted) is capped and, therefore, not a power shaft as required by all the other claims except 10. In these Timken transfer cases the power for both rear and front wheels is taken from the lower shaft.

As a basis for the discussion of the scope of the claims, claim 1 may be taken as typical. It is:

1. In an auxiliary gear box.

(a) a drive shaft,
(b) a driven
[fol. 52] (c) shaft,
(d) a gear on the (driven) shaft,
(e) one end of the drive shaft being piloted in said gear,
(f) internal
(g) clutch teeth
(h) in said gear,
(i) intermediate shaft
(j) with gears mounted thereon
(k) to rotate therewith,
(l) one of said gears meshing with the gear on said driven shaft,
(m) a shiftable creeper gear mounted on the drive shaft
(n) and shiftable into and out of engagement with one of the intermediate gears and/or
(o) the (internal) clutch teeth on the (driven) shaft gear,
(p) a second driven shaft,
(q) a gear
(r) rotatably
(s) mounted thereon and
(t) meshing with one of the intermediate gears, and
(u) a clutch mounted on the second driven shaft for engaging or disengaging said gear . . .

Claims 2 and 3 are, for all practical purposes, identical with claim 1.

All Timken devices, with the exception of T-43-p-1 and T-43-v-1, are free of the first three claims, because none of them have an internal declutching mechanism for the sec-
[fol. 53] ondary output shaft (u). The two exceptions mentioned have substantially the kind of clutch specified, except that additively included is an automatic mechanism which engages the secondary output shaft when the motor is accelerated to a speed faster than that of the wheels and

disengages it when the motor is decelerated. This is not enough to take them out of the coverage of claims 1, 2 and 3, and these two infringe those claims.

Claim 4 differs from claims 1 only in that it is specified that the clutch (u) shall be "for selectively driving the second driven shaft." In the light of the specification this must mean that the clutch shall be manually operated and under the selective control of the operator. Thus, all the Timken devices are free of claim 4, including the two having the automatic clutch.

Claim 5 includes all the elements of claim 1 except the internal clutch (u) and, as a corollary, (r). If the clutch is omitted, the gear, of course, must be fixed by being splined or keyed upon the secondary drive shaft instead of revolving upon it on bearings; otherwise it would not transmit power to it at all. Claim 5 also specifies that the secondary output shaft (p) shall be "connectible at one end with a shaft leading to front traction wheels." All the Timken transfer cases infringe claim 5 except the nine eliminated or reserved at the beginning of this discussion.

Claims 6, 8 and 11 specify only the four shafts of claim 1 [(a), (b), (c)—and, in 11 (e)—(p) and (i)] and "gears for simultaneously transmitting power" between them "selectively operable to disconnect" them. It is also specified by 6 and 8 that the three shafts shall be parallel and in the same plane. Claims 6, 8 and 11 upon their terms are fully anticipated by the prior T-9 and Reif, No. 1,296,216, March 4, 1919. There is no novelty in these claims, unless they can be limited to a construction in which the elements described as "gears for simultaneously transmitting power" are confined to the particular arrangement disclosed by the specification. The claims at hand are not [fol. 54] unlike the usual means claim, and their effect would be very little changed if "means" or "gearing means" had been used instead of "gears" for transmitting power. Just as, in some cases, a claim may be limited by the specification to save it from invalidity, so here I think we may do the same thing, in applying the doctrine of the Formica case, in order to determine their novelty. So construed the claims are novel and infringed by the Timken transfer cases (except the nine eliminated or reserved) because all employ the four-shaft arrangement of 6, 8 and 11 and the gearing arrangement of the specification.

7 and 9 are essentially the same as 5 [claim 1 without internal clutch (u)] except that they do not specify that the secondary drive shaft shall go to the front wheels. Thus all the Timken transfer cases (except the nine eliminated or reserved) infringe these claims.

Claim 10 is for the two upper shafts [(a), (c), and (e)], the second having internal clutch teeth [(f) and (g)], a countershaft (i), upon which a gear is mounted (j), and a shiftable gear on one upper shaft [(m), (n) and (o)]. Precisely this arrangment is seen in Church, No. 1,253,670, January 15, 1918, and in Huff, No. 1,075,650, October 14, 1913.

If read without reference to the specification, claim 10 is not only not a four wheel drive transfer case but is not a power transmitting mechanism at all. There is no second driven shaft (p), and the first (or upper) driven shaft (b) is not described as a power or power output shaft. Unless construed as a subcombination in a power transmitting mechanism its scope would be far outside the whole purpose and intent of the patent. If it be limited to a subcombination in which the pair of axially aligned shafts described consist of a power input and a power output shaft it would be a power transmitting mechanism. But such a limitation leaves the counter-shaft with no function at all in a power transmitting mechanism. However, if it be construed in the light of the specification, as a sub-[fol. 55] combination in a transfer case having a third or lower shaft (p) and the Ruggles and Smith gearing for transmitting power to it, it becomes a novel combination and a power transmitting mechanism in which all parts function. I think it must be so limited. As so construed the four Timken transfer cases in which the upper aligned shaft is capped infringe claim 10.

If no limitation at all, by reference to the specification, be imposed upon this claim we reach the point where the distinction which the Court spoke of in the Formica case—that is, using the prior art to construe and narrow a claim without letting it affect its validity—remains nice but becomes unworkable. The situation is that of a claim, completely anticipated by the prior art. The Court in Swan Carburator Co. v. General Motors Corporation, 42 F. (2d) 452, seized one horn of the dilemma and ignored the prior art. Judge Westenhaver said: "If defendant may not

show invalidity to escape payment of royalties, a practical difficulty exists when one comes to apply the rule permitting the claims to be limited by the prior art. If that art shows the claims to be invalid, the licensee is estopped from denying validity and must pay royalties. If that art only shows that the claims may still be upheld as valid if narrowly limited, then the licensee is not so estoped, and does not have to pay." Somehow, this does not seem to be a very satisfactory solution. However, it is not necessary to attempt to offer a substitute because I think that claim 10 can be properly limited as has been done. At any rate, the result reached is the same as though the method of Swan Carburator case was used.

Claim 12 specifies merely the four shafts of claim 1 [(a), (b), (c), (e), (i), (p)], "power transmitting means" between them, and "a jaw clutch splined upon said power input shaft and selectively engageable with teeth provided on said primary power output shaft." Precisely this combination is embodied in Reif, No. 1,296,216, March 4, 1919. So again, (as with claims 6, 8 and 11) the claim must be [fol. 56] limited to the novel combination where the "power transmitting means" consists of the gearing disclosed by Ruggles and Smith. Even as so limited, however, all the Timken transfer cases not eliminated or reserved would infringe. True, the Timken devices use a gear clutch, but this device is either included in the term "jaw clutch" or is a structural equivalent. The scope of the term "jaw clutch" is quite broad, and no attempt was made in the evidence to define it definitely. However, even if the Timken type clutch would not be included by the term as generally used in the art, the plaintiff is hardly in a position to deny that the two are interchangeable as a matter of choice, since that was its exact contention in connection with its argument based upon alleged priority of Spicer.

Judgment in accordance with the foregoing.

The statements of fact and law in the foregoing opinion may be taken as special findings of fact and conclusions of law.

[fol. 56] IN UNITED STATES DISTRICT COURT

RULINGS ON PLAINTIFF'S REQUESTS

FINDINGS OF FACT

1, 2, 3 and 4. Affirmed.

5 and 6. Denied, since they refer to the issue of validity, which the plaintiff is estopped to raise.

7, 8 and 9. Affirmed.

10. Affirmed. ("T-19" in the request is a misprint and should have been T-9.)

11. Denied as stated. All the Timken devices are two-speed transfer cases. Claims 11 and 12 do not specify two speeds, and I see no reason to limit the scope of the patent in this manner. However, claims 5, 6, 7, 8 and 10, though not necessarily two-speed transfer cases, would not be practical otherwise. Claims 1, 2 and 3 specify "creeper" gearing. Claims 4 and 9 specifically claim two speeds.

[fol. 57] 12. Affirmed, with the modification that it embodies all the physical instrumentalities. It does not embody "improvements" described in the patent specification as "simple, practical, and positive means;" "simple and comparatively inexpensive means;" "the mechanism is simple, practical, and substantial;" "very simple, practical, and inexpensive driving mechanism."

13. Denied. The first sentence of the request may be true if "structural equivalents" includes more complicated gearing which finally results in the same flow of power. The second sentence of the request is not true. For example, claim 1 specifies "intermediate shaft with gears mounted thereon to rotate therewith" while in the Spicer device the intermediate shaft is fixed and the gears are journaled thereon and rotate upon it, not "therewith". Practically all the claims specify that the speed changing clutch shall engage internal teeth in the gear of the primary output shaft and external teeth on one of the intermediate gears, while in Spicer it engages external teeth on the primary output gear and external teeth on a gear upon the input shaft which, in turn, is in constant engagement with one of the intermediate gears. There are other examples.

14. Denied. The statement might be true if it did not claim that the devices accomplish the same result as the structure defined by claims 5 to 12 of the patent. One of the desiderata was that the transfer case be such as could be inserted directly in the drive shaft of the rear wheels without changing its alignment or structure. It is certain that this could not be done with T-7, or PX-54, since in that structure the drive shaft of the rear wheels would have to be dropped from its original position downward so as to be fixed upon the rear end of the lower of the three shafts. Aside from this change as a structural matter such a dropping of the rear drive shaft results in some decrease in clearance.

[fol. 58] 15, 16, 17, 17(a) and 18. Affirmed.

19. Affirmed, except the last clause beginning "intended to protect."

20. Denied as stated. The facts in this connection are stated in the opinion.

21. Not answered as immaterial in view of the estoppel to contest validity.

22. Affirmed, but it is immaterial in view of the date of conception of the patent in suit.

23. Denied. Defendant's proofs as to its *earliest* date of conception are somewhat indefinite, but it is clearly established that the date was prior to the disclosures of PX-34.

24. Denied.

25. Denied. This involves an interpretation of the agreement. See opinion.

26. Not answered as immaterial. Royalties are not claimed on PX-57 to PX-79.

27. Not answered as immaterial. Royalties are not claimed on PX-94a to PX-94g.

28. Not answered as immaterial as to PX-91i, PX-91j and T-32-17 of PX-90, as royalties are not claimed upon these. PX-91d and PX-91e have no drive to front wheels and counsel stated that the defendant does not claim royalties upon them. Consequently the request is immaterial

and is not answered as to them. (Note: There does not seem to be any reason in the claims themselves to limit them to 4 x 4's. In fact I have held that a number of transfer cases used in 6 x 6's infringe a number of the claims. There are only two things which might be argued to the contrary: The specification recited: "This invention relates to vehicle driving mechanism by means of which a con- [fol. 59] ventional automotive vehicle having the usual rear driven axle can be converted into a four-wheel drive vehicle." License agreement May 16, 1938, PX-3, paragraph two, recites, "Frank W. Ruggles and Charles D. Smith have invented certain improvements in Auxiliary Transmission for Four-Wheel Drive Automotive Vehicles.")

29. Affirmed.

30. Affirmed.

31. Affirmed. The only evidence upon the point is a statement by Mr. Strauch in his summary of transfer cases which read upon the terms of the claims. It does not seem to be disputed.

32. Denied. While the clutch is different in construction and is not that described by the specification, I do not believe that the claims need be limited beyond their terms. The first 3 claims merely specify a clutch, without describing it, and specify what driving train the clutch shall engage or disengage. Claim 4 adds to this only that it shall be selective. Plaintiff's brief, under "Nomenclature" gives the following definition: "'Clutch' is a mechanical means employed to selectively connect or disconnect relatively rotatable parts of a transfer case to effect speed changes or to disrupt the driving trains between the input shaft and the primary and/or secondary output shaft." This would include these two devices.

33. Affirmed, so far as material. Royalties are not claimed upon T-32-13, T-32-14, T-32-14-1, T-32-15 and T-32-16. T-32-17-1, T-32-17-2 are those upon which royalties are claimed but which are eliminated by the "front wheel" admission.

34 to 38, inclusive. Affirmed.

[fol. 60] CONCLUSIONS OF LAW

1 and 2. Affirmed.

3. Denied.

3(a) and 3(b). Not answered. I have found as a fact that plaintiff did not promise to disclose prior art to the Patent Examiner. In the absence of such promise failure to do so could have no relevancy except upon the question of the validity of the patent, which is not in issue. If the Spicer use is what is referred to, I have found that it is not prior art against the patent.

4, 5, 6 and 7. Denied.

8 to 19 inclusive. Not answered because immaterial in view of the estoppel to contest validity.

20. Not answered as immaterial as to PX-57 to PX-79, PX-94a, PX-94g, T-32-17 of PX-90, PX-91i and PX-91j, because royalties are not claimed upon these models. As to PX-91d and PX91e, the request is immaterial and not answered because these are the devices eliminated by the "front wheel" admission. Denied as to T-33-13-2, T-32-13-4, T-32-13-5 and T-32-13-6 of DX-21 (Class A-3) and DX-21 (Class A-4). Affirmed as to T-79, T-79-1 and T-79-4 of PX-91k and DX-21 (Class A-6).

21. Denied as stated. The transfer cases referred to do not infringe claim 4 but do infringe claims 1, 2 and 3.

22. Not answered as immaterial as to T-32-13, T-32-14, T-32-14-1, T-32-15 and T-32-16 of PX-90, no royalties being claimed upon these models. Affirmed as to PX-34, T-32-13-1, PX-91b, PX-91c, PX-91f, T-43-G and T-42-H. As to T-32-17-1 and T-32-17-2 the request is immaterial and not answered because of the "front wheel" admission.

23. The request is not answered as immaterial as to the following models because no royalties are claimed thereon: PX-57 to PX-79, PX-94a to PX-94g, T-32-17 and [fol. 61] PX-90, PX-91i, and PX-91j. The request is not answered as immaterial as to PX-91d and PX-91e because of the "front wheel" admission, and as to T-79, T-79-4 because they do not infringe. Denied as to T-32-13-2, T-32-13-4, T-32-13-5 and T-32-13-6.

In United States District Court

Rulings on Defendant's Requests

Findings of Fact

Defendant's requests for findings of fact are all affirmed with the exception that the last sentence of 7 is modified to read as follows: "Plaintiff thereupon admitted that each of the transfer cases selected by defendant was covered by the terms of one or more claims of the Ruggles and Smith patent and that such patent would be, to that extent, infringed thereby."

Conclusions of Law

1, 2 and 3. Affirmed.

4. Affirmed when modified to read as follows:

A-359	T-32	PX-34
A-468	T-32-9	PX-90
A-477	T-43-G	DX-21
A-477	T-43-H	DX-21
A-595	T-32-15-1	PX-91c
A-338	T-32-2	PX-90

Are dominated by claims 5, 6, 7, 8, 9, 10, 11, 12.

A-604	T-32-17-1	PX-91d
A-635	T-32-17-2	PX-91e

No royalties claimed because no drive to front wheels.

SKT-6338	T-32-13-1	DX-21

Are dominated by claims 5, 6, 7, 8, 9, 10, 11, 12.

SKT-6338	T-32-13-2	DX-21

[fol. 62] Are dominated by claim 10 only.

A-582	T-32-13-3	PX-91b
A-605	T-32-23-1	PX-91f

Are dominated by claims 5, 6, 7, 8, 9, 10, 11, 12.

A-596	T-32-13-4	DX-21
A-612	T-32-13-5	DX-21
A-612	T-32-13-6	DX-21

Same as T-32-13-2.

A-626	T-43-P-1	PX-91h
A-626	T-43-V-1	PX-91h

Are dominated by all claims except 4.

A-631	T-79	PX-91k
A-631	T-79-1	PX-91k
A-631	T-79-4	PX-91k

Are dominated by none of the claims.

5 and 6. Affirmed.

7. Denied.

8. Not answered as immaterial. The validity of the patent is not in issue.

[fol. 63] IN UNITED STATES DISTRICT COURT

JUDGMENT—Filed December 2, 1942

This cause having come on to be heard, upon pleadings and proofs presented in open court by both parties, and after briefs were filed by both parties and other due proceedings had, it is hereby

Ordered, Adjudged and Decreed as follows:

1. That Letters Patent of the United States No. 2,173,044, issued September 12, 1939, on the invention of Ruggles and Smith for "Auxiliary Transmission for Four-Wheel Drive Automotive Vehicles" is owned by the defendant, Alma Motor Company.

2. Plaintiff is a licensee under such patent and has been since the issuance thereof on September 12, 1939.

3. Plaintiff is estopped to contest the validity of said Ruggles and Smith patent herein.

4. That plaintiff has manufactured and sold auxiliary transmission mechanisms since the issue date of said Ruggles and Smith patent which are dominated by one or more claims of such Ruggles and Smith, patent, as follows:

A-359	A-32	PX-34
A-468	T-32-9	PX-90

A-477	T-43-G	DX-21
A-477	T-43-H	DX-21
A-595	T-32-15-1	PX-91c
A-338	T-32-2	PX-90
SKT-6338	T-32-13-1	DX-21
A-582	T-32-13-3	PX-91b
A-605	T-32-23-1	PX-91f

are dominated by claims 5, 6, 7, 8, 9, 10, 11 and 12.

SKT-6338	T-32-13-2	DX-21
A-596	T-32-13-4	DX-21
A-612	T-32-13-5	DX-21
A-612	T-32-13-6	DX-21

are dominated by claim 10 only.

[fol. 64]

A-626	T-43-P-1	PX-91h
A-626	T-43-V-1	PX-91h

are dominated by all claims except 4;—

and that plaintiff should have paid defendant royalties in accordance with the license agreement on all such auxiliary transfer cases.

5. The remaining auxiliary transmission mechanisms manufactured and sold by plaintiff since the issuance of the Ruggles and Smith patent either are not dominated by any claim of such Ruggles and Smith patent or no claim of royalty thereon has been made by defendant in this suit.

6. That unless plaintiff and defendant shall stipulate and agree in writing within thirty days from the date hereof as to the amount of royalties or license fees due from plaintiff to defendant under the license agreement, with interest at the rate of 5% per annum from the dates when such royalties or license fees became due, the defendant is given leave to apply to this Court for the appointment of a Special Master of this Court to ascertain, take, state and report to the Court the number of auxiliary transmission mechanisms, upon which royalties are due under the opinion, findings and conclusions of the Court, manufactured and sold by plaintiff since the issuance of the Ruggles and Smith patent, up to the date of this Judgment, and to determine the number of such auxiliary transmission mechanisms upon which royalties have not been paid,

and the amount of royalties due from plaintiff and payable to the defendant at the royalty rate specified in the aforesaid license agreement.

7. That the taxable costs of this action, other than the costs of the accounting provided for in paragraph 6 hereof, shall be divided between the parties, three-fourths to be paid by the plaintiff and one-fourth by the defendant.

(S.) Kirkpatrick, United States District Judge.

Dated: November 30, 1942.

[fol. 65] In United States District Court

Notice of Appeal—Filed February 27, 1943

Notice is hereby given that Alma Motor Company, defendant in the above entitled cause, hereby appeals to the Circuit Court of Appeals for the Third Circuit from that part of the final judgment contained in Paragraph 5 thereof, and entered in this action on December 2, 1942.

S. Samuel Arsht.

February 27, 1943.

In United States District Court

Defendant-Appellant's Statement of Points to be Relied Upon—Filed May 12, 1943

Now comes Defendant-Appellant, Alma Motor Company, by its attorneys, and states that the following constitutes the points to be relied upon by it on the appeal of the above entitled case:

1. The District Court erred in holding that transfer cases manufactured by the plaintiff-Timken-Detroit Axle Company designated as T-79, T-79-1 and T-79-4 do not infringe any of the claims of the Ruggles and Smith patent in suit No. 2,173,044.

2. The District Court erred in holding that claims 6, 8 and 14 are limited by the prior art to such an extent as to exclude the said transfer cases T-79, T-79-1 and T-79-4.

3. The District Court erred in holding that the above identified transfer cases T-79, T-79-1 and T-79-4 do not in-

fringe claims 7 and 9 of the said Ruggles and Smith patent in suit.

4. The District Court erred in holding that the said transfer cases T-79, T-79-1 and T-79-4 do not infringe claim 12 of the said Ruggles and Smith patent in suit.

[fol. 66] 5. The District Court erred in not holding that the above designated transfer cases T-79, T-79-1 and T-79-4 infringe claims 6, 7, 8, 9, 11 and 12 of the said Ruggles and Smith patent in suit.

Hugh M. Morris, Alexander L. Nichols, Attorneys for Defendant-Appellant.

I. Joseph Farley, Of Counsel.

Service of copy of the within statement of points on which defendant intends to rely on the appeal herein is hereby acknowledged this 12th day of May, 1943.

E. Ennalls Berl, Attorney for Plaintiff.

In United States District Court

Order as to Original Exhibits—Filed May 13, 1943

And Now, to-wit, this 13th day of May, A. D. 1943, the designation of defendant as to the contents of record on appeal herein having been brought to the attention of the Court, from which it appears that said defendant has designated the exhibits introduced by the respective parties at the trial of this cause to be transmitted to the Circuit Court of Appeals as physical exhibits upon said appeal. Now therefore in conformity with rule 75 (i) of the Federal Rules of Civil Procedure,

It Is Ordered by the Court that the following exhibits in this cause shall be transmitted by the Clerk of this Court to the Clerk of the United States Circuit Court of Appeals for the Third Circuit as physical exhibits upon the appeal herein, the same to be returned to the Clerk of this Court upon the conclusion of said appeal:

Plaintiff's Exhibits 1 to 109, inclusive.
Defendant's Exhibits 10 to 24 (c), inclusive.

(S.) Paul Leahy, United States District Judge.

[fols. 67-68] [File endorsement omitted]

[fol. 69] IN THE UNITED STATES CIRCUIT COURT OF APPEALS FOR THE THIRD CIRCUIT

Appeal No. 8300

THE TIMKEN-DETROIT AXLE COMPANY, Plaintiff-Appellee

v.

ALMA MOTOR COMPANY, Defendant-Appellant

MOTION TO DISMISS APPEAL, COMPLAINT AND COUNTERCLAIM OR TO DISMISS APPEAL AND REMAND THE CAUSE TO THE DISTRICT COURT OF DELAWARE FOR APPROPRIATE ACTION—Filed August 25, 1943

Now comes Plaintiff-Appellee in the above-entitled cause and respectfully moves:

(a) That this appeal be dismissed and that this cause be remanded to the District Court of Delaware with instructions to vacate its judgment entered in this cause on December 2, 1942 and to enter a judgment dismissing the complaint and counterclaim because of transfer of jurisdiction of the subject matter to the Court of Claims under United States Public Law 768 or, in the alternative,

(b) That this appeal be dismissed and that this cause be remanded to the District Court of Delaware with instructions to reconsider its judgment in light of the War Department Order issued against the parties hereto on July 28, 1943, and to take such further action as may be appropriate in the circumstances.

In support of its motion, Plaintiff-Appellee states that after the opinion in this cause was rendered by the District Court, namely on October 31, 1942, Public Law 768, 77th Congress, Chapter 634—2d Session, a copy of which is attached hereto as Exhibit A, was approved by the President and became effective; that pursuant to the provisions [fol. 70] of said law the War Department on December 30, 1942, about twenty-eight days after entry of the judgment of the District Court of Delaware in this cause, gave notice to Plaintiff-Appellee and Defendant-Appellant that the royalties provided by the agreement of May 16, 1938, which forms the basis of this action, were believed to be unreasonable or excessive and ordered Plaintiff-Appellee to discon-

tinue payment of any royalties pursuant to said agreement until the making of a final order by the War Department, as provided by said Public Law 768; that Defendant-Appellant, pursuant to the provisions of Public Law 768, filed a written request, dated January 9, 1943, for a hearing; that a hearing was duly held by the interested officials of the War Department in Detroit, Michigan on or about February 8, 1943; that Plaintiff-Appellee and Defendant-Appellant were represented at said hearing and stated their respective positions concerning the royalties provided by said agreement of May 16, 1938; that Plaintiff-Appellee contended that the Ruggles et al. Patent No. 2,173,044, upon which said agreement of May 16, 1938 was based, was invalid in view of the prior art relied upon in this action and that, therefore, no royalties were due under said agreement; that, as shown by the attached affidavit, Exhibit B, and the War Department's transcript of the proceedings had at said hearing, a copy of which is attached hereto as Exhibit C, the War Department, speaking through Major W. L. Cockrell, who presided at the hearing, took the position that said Ruggles et al patent was invalid in view of the art of record in this action and that any royalty paid under an invalid patent was unreasonable; that, pursuant to said Public Law 768 and, after said hearing, the War Department on July 28, 1943 [fol. 71] issued an order entitled "Royalty Adjustment Order No. W-3", a photostatic copy of which is attached hereto as Exhibit D; that said order specifies that no royalties be paid Defendant-Appellant under said agreement of May 16, 1938 and directs Plaintiff-Appellee

> "forthwith to pay over to the Treasurer of the United States the balance of any royalties, accrued or hereafter accruing under said licenses"

and to

> "reduce the contract prices of all supplies, equipment or materials, or parts thereof, which have been delivered or are to be delivered by Licensee to or for the War Department or to any contractor or subcontractor for the War Department but for which Licensee has not on the date of this Order received payment * * * to the extent necessary to give the War Department the full benefit of the reduction in royalty rates specified in paragraph (1) of this Order";

that Plaintiff-Appellee has manufactured and sold transfer cases coming within the agreement of May 16, 1938 only to or for the use of the War Department and, therefore, cannot comply with both the judgment entered in this action and said Order; and that said Order issued under Public Law 768, by the terms of said law, transfers jurisdiction of this controversy to the Court of Claims and withdraws from this Honorable Court and the District Court for the District of Delaware their jurisdiction of this controversy under the agreement of May 16, 1938, by substituting an action under section 2 of said Public Law as the sole action on said agreement of May 16, 1938 and the controversy involved in this action.

Wherefore, Plaintiff-Appellee asks that this Court issue a mandate

[fol. 72] (1) Dismissing this appeal; and

(2) Remanding this cause to the District Court of Delaware with instructions to vacate its judgment entered in this cause on December 2, 1942 and enter a judgment dismissing the complaint and counterclaim because of the transfer of jurisdiction of the subject matter to the Court of Claims under United States Public Law 768 or, in the alternative, issue a mandate

(3) Dismissing the appeal; and

(4) remanding this cause to the District Court with instructions to reconsider its judgment in light of the War Department Order issued against the parties hereto on July 28, 1943 and to take such further action as may be appropriate in view thereof.

C. A. Southerland, Delaware Trust Building, Wilmington, Delaware, Attorney for Plaintiff-Appellee. Of Course for Plaintiff-Appellee: William A. Strand, J. Matthews Neale, Strauch & Coffman, 1001 Fifteenth Street, N. W., Washington, D. C.

[fol. 73] EXHIBIT "A" TO MOTION

[Public Law 768—77th Congress, Chapter 634—2d Session]

[S. 2794]

AN ACT

To provide for adjusting royalties for the use of inventions for the benefit of the United States, in aid of the prosecution of the war, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That, to aid in the successful prosecution of the War, whenever an invention, whether patented or unpatented, shall be manufactured, used, sold, or otherwise disposed of for the United States, with license from the owner thereof or anyone having the right to grant licenses thereunder, and such license includes provisions for the payment of royalties the rates or amounts of which are believed to be unreasonable or excessive by the head of the department or agency of the Government which has ordered such manufacture, use, sale, or other disposition, the head of the department or agency of the Government concerned shall give written notice of such fact to the licensor and to the licensee. Within a reasonable time after the effective date of said notice, in no event less than ten days, the head of the department or agency of the Government concerned, shall by order fix and specify such rates or amounts of royalties, if any, as he shall determine are fair and just, taking into account the conditions of wartime production, and shall authorize the payment thereof by the licensee to the licensor on account of such manufacture, use, sale, or other disposition: *Provided, however,* That the licensee or licensor, if he so requests within ten days from and after the effective date of said notice, may within thirty days from the date of such request present in writing or in person any facts or circumstances which may, in his opinion, have a bearing upon the rates or amounts of royalties, if any, to be determined, fixed and specified as aforesaid, and any order fixing and specifying the rates and amounts of royalties shall be issued within a reasonable time after such presentation. Such licensee shall not after the effective date of said notice pay to the licensor, nor charge directly or indirectly to the United States a royalty, if any, in ex-

cess of that specified in said order on account of such manufacture, use, sale, or other disposition. The licensor shall not have any remedy by way of suit, set-off, or other legal action against the licensee for the payment of any additional royalty remaining unpaid, or damages for breach of contract or otherwise, but such licensor's sole and exclusive remedy, except as to the recovery of royalties fixed in said order, shall be as provided in section 2 hereof. Written notice as provided herein shall be mailed to the last known address of the licensor and licensee and shall be effective upon receipt or five days after the mailing thereof, whichever date is the earlier.

Sec. 2. Any licensor aggrieved by any order issued pursuant to section 1 hereof, fixing and specifying the maximum rates or amounts of royalties under a license issued [fol. 74] by him, may institute suit against the United States in the Court of Claims, or in the District Courts of the United States insofar as such courts may have concurrent jurisdiction with the Court of Claims, to recover such sum, if any, as, when added to the royalties fixed and specified in such order, shall constitute fair and just compensation to the licensor for the manufacture, use, sale, or other disposition of the licensed invention for the United States, taking into account the conditions of wartime production. In any such suit the United States may avail itself of any and all defenses, general or special, that might be pleaded by a defendant in an action for infringement as set forth in title sixty of the Revised Statutes, or otherwise.

Sec. 3. The head of any department or agency of the Government which has ordered the manufacture, use, sale, or other disposition of an invention, whether patented or unpatented, and whether or not an order has been issued in connection therewith pursuant to section 1 hereof, is authorized and empowered to enter into an agreement, before suit against the United States has been instituted, with the owner or licensor of such invention, in full settlement and compromise of any claim against the United States accruing to such owner or licensor under the provisions of this Act or any other law by reason of such manufacture, use, sale, or other disposition, and for compensation to be paid such owner or licensor based upon future manufacture, use, sale, or other disposition of said invention.

Sec. 4. Whenever a reduction in the rates or amounts of royalties is effected by order, pursuant to section 1 hereof, or by compromise or settlement, pursuant to section 3 hereof, such reduction shall inure to the benefit of the Government by way of a corresponding reduction in the contract price to be paid directly or indirectly for such manufacture, use, sale, or other disposition of such invention, or by way of refund if already paid to the licensee.

Sec. 5. The head of the department or agency of the Government concerned is further authorized, in his discretion and under such rules and regulations as he may prescribe, to delegate and provide for the delegation of any power and authority conferred by this Act to such qualified and responsible officers, boards, agents, or persons as he may designate or appoint.

Sec. 6. For the purposes of this Act, the manufacture, use, sale, or other disposition of an invention, whether patented or unpatented, by a contractor, a subcontractor, or any person, firm, or corporation for the Government and with the authorization or consent of the Government shall be construed as manufacture, use, sale, or other disposition for the United States and for the purposes of the Act of June 25, 1910, as amended (40 Stat. 705; 35 U. S. C. 68), the use or manufacture of an invention described in and covered by a patent of the United States by a contractor, a subcontractor, or any person, firm, or corporation for the Government and with the authorization or consent of the Government, shall be construed as use or manufacture for the United States.

Sec. 7. This Act shall apply to all royalties directly or indirectly charged or chargeable to the United States for any supplies, equipment, or materials to be delivered to or for the Government from and after the effective date of the notice provided for in section 1 hereof. This Act shall also apply to all royalties charged or chargeable directly [fol. 75] or indirectly to the United States for supplies, equipment, or materials already delivered to or for the Government which royalties have not been paid to the licensor prior to the effective date of the notice provided for in section 1 hereof. Sections 1 and 2 of this Act shall remain in force only during the continuance of the present war and for six months after the termination thereof, ex-

cept that as to rights accrued or liabilities incurred prior to termination thereof, the provisions of this Act shall be treated as remaining in force and effect for the purpose of settling, sustaining, qualifying, or defeating any suit or claim hereunder.

Sec. 8. The head of each department or agency of the Government may issue such rules and regulations and require such information as may be necessary and proper to carry out the provisions of this Act. The provisions of section 10(1) of an Act approved July 2, 1926 (44 Stat. 787), as amended, and title XIII of Public Law 507, Seventy-seventh Congress, shall be applicable to the owner, licensor, or licensee of an invention, whether patented or unpatented, manufactured, used, sold, or otherwise disposed of for the United States, and the term "defense contract" as used in said Act shall mean and include an agreement for the payment of royalty, regardless of the date of such agreement, under or by virtue of which royalty is directly or indirectly paid by the Government or included within the contract price for property sold to or manufactured for the Government.

Sec. 9. Nothing herein contained shall be deemed to preclude the applicability of Section 403 of Public Law 528, Seventy-seventh Congress, as the same may be heretofore or hereafter amended so far as the same may be applicable.

Sec. 10. If any provision of this Act or the application of any provision to any person or circumstance shall be held invalid, or if any provision of this Act shall be inoperative by its terms, the validity or applicability of the remainder of the Act shall not be affected thereby.

Approved, October 31, 1942.

[fol. 76] EXHIBIT "B" TO MOTION

IN THE UNITED STATES CIRCUIT COURT OF APPEALS FOR THE THIRD CIRCUIT

Appeal No. 8300

[Title omitted]

AFFIDAVIT OF JOHN E. GALLAGHER

COUNTY OF WAYNE,
State of Michigan, ss.:

John E. Gallagher, being duly sworn, deposes and says:

I am in charge of the Patent Department of The Timken-Detroit Axle Company and am personally familiar with this litigation, the War Department's notice and Royalty Adjustment Order No. W-3 relating to The Timken-Detroit Axle Company-Alma Motor Company agreement of May 16, 1938 and the proceedings leading up to issuance of said order, the transfer cases manufactured by Timken under the agreement of May 16, 1938, the prices fixed on such transfer cases and the royalties collected, paid and charged by Timken pursuant to the agreement of May 16, 1938; our records show that all of the transfer cases held to be infringements or now alleged to be infringements which have been manufactured and sold by The Timken-Detroit Axle Company since September 12, 1939, the date of Ruggles and Smith patent 2,173,044, have been manufactured and sold directly or indirectly to the United States; that royalties have been charged only on T-43-P-1 and T-43-V-1 transfer cases sold to the Marmon-Herrington Company; that, up to the date of the War Department notice of De-
[fol. 77] cember 30, 1942 ordering The Timken-Detroit Axle Company to discontinue royalty payments to Alma Motor Company, all royalties charged had been paid over to Alma Motor Company as provided in the agreement; that I have from time to time during my personal contacts with the personnel of the War Department been advised that the War Department's assertion of invalidity of Ruggles et al patent 2,173,044 and the issuance of said order is based on the art of record in this litigation; that Major W. L. Cockrell presided at a hearing held at Detroit on

February 8, 1943, to determine the fair and reasonable royalty to be paid Alma Motor Company under said patent and agreement; that Plaintiff-Appellee contended at the hearing that the Ruggles et al patent 2,173,044 was invalid in view of the prior art relied upon in this litigation and, therefore, no royalties were due under the agreement of May 16, 1938, and that Major Cockrell stated that the position of the Chief of Ordnance confirmed by the War Department's order, was that Ruggles et al patent 2,173,044 was invalid and that payment of any royalty under an invalid patent was unreasonable.

Further affiant saith not.

John E. Gallagher.

Sworn to and subscribed before me this 17 day of August, 1943, R. E. Grams, Notary Public, Wayne County, Mich. My commission expires February 29, 1944. (Seal.)

[fol. 78] EXHIBIT "C" TO MOTION

Transcript of Proceeding at a Meeting Held in The Tank-Automotive Center, Union Guardian Building, Detroit, Michigan, Before Major Wayne L. Cockrell

February 8, 1943.

Present: Major Wayne L. Cockrell, Presiding Officer; Lt. Colonel C. E. Herrstrom, C. S. Walker, W. A. Strauch, J. E. Gallagher, W. W. Schenck, I. J. Farley, Lt. Commander Ralph L. Chappell.

Major Cockrell: This hearing is called at the request of the Alma Motor Company, and is to be presided over by me on authority of a letter of the Under-Secretary of War, Robert P. Patterson, dated February 2, 1943, which will be included as an exhibit in the record in this hearing. (Marked by the reporter Exhibit "A" which is attached hereto and made a part of this transcript.) I will read it.

"Memorandum for the Chief of Ordnance

"Subject: Further Delegation of Authority under the Act of October 31, 1942 (Public Law No. 768, 77th Congress, 2nd Session).

"1. Reference is made to the memorandum dated November 20, 1942, as amended January 30, 1943, (herinafter referred to as the Delegation of November 20, 1942), of the Secretary of War regarding the delegation of authority under the Act of October 31, 1942, Public Law 768, 77th Congress, 2nd Session (hereinafter referred to as the Act).

"2. Such of the powers, duties and authorities conferred upon the Secretary of War by the Act as are referred to in clauses (2) and (3) of paragraph 1112.8 of Schedule 1 annexed to the Delegation of November 20, 1942, are hereby further delegated, with respect to the agreement referred to in the Notice dated January 4, 1943, a copy of which is hereto attached, marked Schedule A, to Major Wayne L. Cockrell, Production Service Branch, Detroit Ordnance District Office, whose action under this delegation will be subject to review and approval by the Chief of Ordnance and, as provided in clause (3) of said paragraph 1112.8, to the approval of the Director, Purchases Division, Headquarters, Services of Supply.

"3. The powers, duties and authorties conferred in the Delegation of November 20, 1942 to the Chief of Ordnance and Deputy Chief of Ordnance, as well as the powers, duties and authorities herein conferred upon Major Cockrell, may be exercised with respect to any contract, subcontract, or purchase by the War Department involving the agreement referred to in Schedule A. In the exercise of such powers, duties and authorties, herein referred to, the representatives of the Ordnance Department will consult with representatives [fol. 79] of any supply service known or believed to be concerned, and will be under the direction of the Under Secretary of War."

The parties interested are The Timken-Detroit Axle Company, who are the licensees under this patent, and the Alma Motor Company, who are the licensors. This hearing is being held at the request of the latter. I will read a letter from the Alma Motor Company to General L. H. Campbell, Jr., Chief of Ordnance, dated January 8, 1943 (Exhibit "B.")

"My Dear General:

Re: Ruggles and Smith Pat. 2,173,044.

"This will acknowledge receipt of the notice under the recent 'Public Law No. 768' at our Alma plant and dated December 30th, 1942, informing us that the royalties now being paid under the above-identified patent are believed to be excessive. We are quite surprised at your belief, and feel certain that a full discussion of the facts will enable you to alter your belief. We accordingly request a hearing as soon as possible wherein the facts known to us may be presented to you. If any special form is needed under the Law for us to obtain such hearing, we wish you would send us a copy thereof, as procedure under this new Law is something our attorneys seem to be quite hazy about.

"We wish you would send further correspondence in connection with this proceeding to our Detroit Office, with a carbon addressed to George Rex Frye, Esq., % Chas. M. Havell, 456 Munsey Bldg., Washington, D. C."

Unless there are some objections, I think we will hear first from the Timken-Detroit Axle Company.

Mr. Strauch: The agreement under which royalties are being paid was made in settlement of the interference in about 1938 or 1939, and at the time the settlement was made, it was made as a matter of business expediency. Not much business was involved, and the cost of litigation and proving the dates was determined by the Timken Company at that time to be more than the amount of royalties that would have to be paid in accordance with the settlement. That agreement speaks for itself.

The interference originated in the application filed by the Timken-Detroit Axle Company at a time when we did not know the whole facts as to the development of the mechanism. The material for the application came through to us as a routine matter several years after the basic development had been done and after the cases had been [fol. 80] in use. Took several years in development, then they were sold, and then within the statutory period after these cases had gone into production, the design came to us to be filed in the routine way and we examined the thing

and did not find anything particularly that would stop the patent from issuing, and the further reason for filing it at that time was that the Marmon-Herrington Company had told Timken they were filing on it. The construction was made for Herrington, and as between Herrington and the Timken-Detroit Axle Company, we felt quite sure that it had been originated by Timken and they *they* had filed the application and put in all the detailed designs.

In the course of the prosecution, all of these applications appeared—the Ruggles application came in and Herrington's application also came in and the Timken application came in. Claims were made for the purpose of interference. When the interference was declared, we went into the history of the whole development. I investigated personally at Camp Holabird and we reached the conclusion then, as a result of information gained at that time, that the whole development had been originated by the Government if there was anything patentable in it.

We then got in touch with the Alma Motor attorneys and showed that we had certain prior art uses, the Spicer use and two or three other designs that had been turned up and the T-9 design which the Wisconsin Axle branch of Timken had made, but had only made three cases of and that was completely overlooked at Timken. As a matter of fact, it was turned over to Holabird and they finally dug up the drawings from Timken.

So we got into the conference for that settlement and it was agreed all around that the number of the claims that were initially filed were unpatentable and the agreement was made then to disclaim some of the claims. We agreed to concede priority on anything that might be patentable on the theory that nothing had been left in there except possibly the subject matter of four claims which we had not become involved in, in the interference, which was because we could not make them. We had no basis of claim to make interference on those claims and we were not making that type of transfer case and we did not know whether or not [fol. 81] the claims would be held valid later.

We went into that agreement with the understanding that the prior art, which included the Spicer transfer case, would be brought to the Patent Office's attention and the claim disclaimed, and we conceded priority to settle the matter. We felt that the most that would come out of that

consideration might be these first four claims, but the history of the prosecution was that this art, and those uses were not brought to the attention of the Patent Office at all, but an argument developed at the conference as to whether the additional claims were patentable. The patent dated from the development work at Camp Holabird which resulted in the Spicer case.

We depended on The Patent Office to take care of that. We figured if the Patent Office had these prior uses under examination, it would determine whether or not any claims could be approved, but the prior uses were not called to the attention of the Patent Office, and the patent issued. Immediately on its issue, we sent notice that we were not going to be bound even though we were licensees. We were not going to be bound to pay royalties under a design which was incorrect and upon claims which were invalid. After all, those, in my opinion, read directly on the Spicer uses, and I think the court's decision makes that the case, and we gave notice that we would only be bound in the transfer cases under the first four claims, and made payments and continued to make payments in that way.

The matter then got into controversy as to the balance of royalties due. Alma took the position of claiming royalties on all cases then in the making. We found we were not going to be able to stay out, and then on behalf of Timken we filed application for a declaratory judgment—filed two applications—one asking for limitation of scope, and the other asking that the claims be held invalid. The court gave a ruling on the scope, because they were patent successors of the licensors. There were two things the court did not do. One of them was that among the designs that were given by Holabird to Spicer, there was almost a duplicate of the T 32 type of case which is now being made, and shown in the [fol. 82] Ruggles & Smith application, and that was not considered at all by the court because Spicer was making a high speed type of transmission and they adapted their own transmission to this design, but the print that was given by Holabird to Spicer at that time for development with the Spicer case is not under the interpretations given by Judge Kirkpatrick in that decision. The claims read on the Holabird design, so, under the circumstances, it is our view that these claims just are not good. The court held three or four of them that read directly on prior art infringed on

the interpretation we were licensees. If we were not licensees, the court would have held these claims invalid.

In disposing of the Spicer case which was designed at Holabird in April and was actually sold to White in September, delivered early in October, and tried out by Holabird early in November, the court in order to dispose of that design, ignored the earlier lay-outs completely, and awarded conception on just the single gear drawing instead of the whole case. That is, the October drawing upon which the court awarded conception, was long after the conception of the Spicer job and was actually after the first sale, as the Spicer case was on sale certainly in September, because there was an order given by the White Company to Spicer on September 15, which was a month before the earliest conception. Then, in its opinion, the court said that he thought the Spicer design was different because of a different method of shifting the gears, but even that method of shift was in the Holabird designs that were given to Spicer.

Now, on the first four claims, we thought in the beginning and until we really got into the records that were turned up at Holabird when we took depositions, that there might be a possibility of those claims being held valid in view of our situation. There were cases developed in 1932 with that same type of de-clutch on the bottom shaft—what they call the internal de-clutch—that in 1932 were also given to Holabird. The difference between those claims and the earlier case was the use of the de-clutch on the bottom shaft to declutch the front wheels.

[fol. 83] Of course, we tell you those claims are invalid on the work that was done by the Government at Camp Holabird and the cited art directly. Even giving them the benefit of Judge Kirkpatrick's decision they still were first shown in the drawings of a design that was not built by Spicer. They made a selection. There was a chance for disclosure of all of this Holabird work to Mr. Ruggles. According to the record offered at Holabird, Holabird knew about his interest in this development in June 1933. It is shown in one of our reports.

At that time there was a large PWA order to be placed. The truck makers were anxious to get in on the business, and designs were broadcast, and the specifications were open to anybody—anybody could come in and get them. Ruggles was in there in June, and the Timken Company sent out its

designs of these cases in December of 1933 and January of 1934 and sent designs up to the Alma Motor Company in January of 1934, and finally at that time our records show Ruggles had used a single speed case. The first evidence they had that they had a two-speed case at all was in 1935, and in 1935 they sent it to Holabird, but they didn't file until about a year after that upon our own design. The record in that case also says the work in 1933 was on a single speed case. They actually bought gears from us in September 1933 with a single speed case, and on that record, I don't see how they can possibly prevail as far as the finished T-32 type of development is concerned, even agreeing, we conceded priority without a knowledge of the facts. After all, we are not asking for the patent ourselves, and that is as far, I think (and we have decisions to that effect), that that is as far as this estoppel should go. Even if they could do it, they should not tie the Government's hands or tie anybody's hands on a case that was disclosed to them a year before they filed their application.

Major Cockrell: When was this agreement in regard to the case entered into between yourselves and Alma?

[fol. 84] Mr. Strauch: I think it was in 1938. At that time it was a bad business year and we thought there would not be enough cases sold to pay the cost of fighting out an ordinary interference, let alone going into a situation of this kind.

Major Cockrell: What about the royalties which have to be paid to the Alma Motor Company?

Mr. Strauch: After we receive the notice in each of the cases, we refused to pay. They wrote us a letter saying they were going to disclaim one of their claims. We think the patent is invalid for that reason. We have a letter from their attorneys, but of course the court did not agree with us on that. Nevertheless, I don't think that the royalties are payable at this time.

Mr. Gallagher: We can give those figures.

Major Cockrell: We would like to have those figures. Possibly there are some claims that are being held by the Timken Company.

Mr. Gallagher: That is right; that we would consider payable.

Major Cockrell: Under your agreement they would be payable?

Mr. Strauch: I don't think they should be, although we are paying them, because we were licensees and because we had those claims before us at that time and we recognized those claims. They were the only ones claimed at that time and I recommended paying because we were not in a very good position not to pay on those particular claims.

Major Cockrell: That is the first four claims?

Mr. Strauch: That is right.

Major Cockrell: There are still royalties under those first claims which you have not paid?

Mr. Strauch: That is right.

Major Cockrell: And those claims have entered into certain cases you have made for the Government?

Mr. Strauch: That is right. The amount is not very much—not as much as Timken is doing. Timken makes a large size job and while royalties were claimed on those jobs, the court's decision has confirmed our position. We never agreed that royalties were due—royalties were never charged on them, and the Government had bought the T-79 [fol. 85] case, and that is the largest Timken volume, but all similar vehicles use this same case. Whatever is done here, as far as Ruggles & Smith design is concerned, is going to apply, I guess, to everything under a ton and a half that is used in the Army and to some larger sizes made by others. As a matter of fact, I think all transfer cases made by others than Timken fall under this patent, if it is going to be given any scope at all.

Lt. Col. Herrstrom: The notice which was served included a reservation to the effect that the Government might, at some later date, seek to reach the royalties which had been accumulated in the hands of the Timken-Detroit Company and which have not yet been paid. What attitude did the company take in respect to any reservation?

Mr. Strauch: That the Government is entitled to it. The royalties were charged. The company was collecting them for the people who were entitled to them, and if the Government has paid them, it is entitled to those royalties back.

Major Cockrell: I think we ought to hear from the Alma Motors Company.

Mr. Farley: I have a copy of the agreement which I would be glad to introduce in evidence. I was wondering what remarks Mr. Strauch had to give us about the reasonableness of the royalties. I have not heard any comment on that

yet. Or course, it very obviously seems to me that the Timken Axle Company, having entered into a contract—in other words, to use the vernacular,—tried to welch on it. Now practically all of the contentions that are made here by Mr. Strauch could have been raised by Timken if they saw fit to contest the interference, which they did not see fit to do.

Major Cockrell: That is at the time the interference agreement was made?

Mr. Farley: Yes.

Major Cockrell: Was all this information included?

Mr. Farley: I could not say, because I was not in the case at the time. It was handled by Mr. Frye at the time.

Mr. Schenck: Everything was laid on the table and we went over it with a fine-tooth comb.

[fol. 86] Mr. Farley: The matter was thoroughly threshed out before Judge Kirkpatrick who wrote a very scholarly opinion, I would say, and it seems to me now that what Timken is trying to do is to make this Board a Court of Appeals to review Judge Kirkpatrick's opinion. Now they could resort by appeal to the Circuit Court of Appeals, and judgment was only entered on November 25, 1942, so if it is a question of the validity of the patent and all that sort of thing, I don't really know what scope your board has. I doubt very much that you would pass judgment on the validity of a patent. Of course, the Timken Company was the moving party in this suit, and Judge Kirkpatrick made an able attempt to rule on all of the defenses raised which are now propounded by Mr. Strauch. Of course, there are one of two things they can do. They can give up the license if they want to attack the validity of the patent. We don't want to agree to give up the license and they want to overrule Judge Kirkpatrick merely on the contention of validity. We think, however, the motive should have some weight on the question of the reasonableness of this royalty. The contract you have here shows that the royalty is only fifty cents per transfer case, and it is our understanding from Mr. Schenck that the price of the transfer cases is in the neighborhood of one hundred dollars. That would make a royalty of one-half of one per cent. Now, if there could be anything more reasonable than that rate of royalty—one-half of one per cent, I don't know what it is. Perhaps the Timken Company may have a proposition; they may want to make it one-one-hundredth of one per cent.

Major Cockrell: Under this law, the Government is not estopped in the same way that the Timken Company would be estopped on the question of whether the patent is valid or not. Before the Government begins to pay a royalty, it would determine whether the royalty is reasonable or not.

Mr. Farley: I realize that, but it was the purpose of the board to go into this question of validity, and I suppose we would have to go through an ordinary suit at law and present all the evidence available. I don't think the Board would have sufficient information to make a decision on the statement of Mr. Strauch without any evidence on the point. It seems to me that the situation as it stands right now——

[fol. 87] Mr. Strauch: There are one or two things I want to answer, Mr. Farley. I did not know in 1938 that the Alma Motor Company had bought the three-speed gears in September of that year. I did not know that, but I don't know that it would have made any difference then. It is a vital fact in showing what they were doing. Again, he says, "Why don't you cancel?" I answer that by saying, "We have no cancellation clause in the agreement and we cannot cancel."

Major Cockrell: It seems to me there was something of that kind. Is that right, Mr. Farley? That there is no cancellation agreement in that contract?

Mr. Farley: I don't know. This was dumped into my lap Saturday afternoon, and I haven't had the time to go into it. Rex Frye was handling that, but he is in Washington at this time. He is with the Alien Property Custodian there. The matter has just been turned over to me.

Major Cockrell: Are there any other unlicensed manufacturers of this same transfer case?

Mr. Strauch: Yes, sir, I think the Ford Motor Company is among them. But if they don't operate under license, they probably are buying from a licensed or unlicensed manufacturer. Willys-Overland manufactures jeeps, I understand.

Major Cockrell: If your company can substantiate that, you can get out of the agreement under Article 8.

Mr. Strauch: We don't have to get out of the agreement under Article 8. We gave notice and if suit is not filed, we are entitled to cancel the agreement, if we can cancel without paying royalties, and we served notice after the litigation was brought, and as to that provision we are probably even paying royalties anyway, but as to knowledge of the

facts that this board has complete evidence as we have, based on work that was done at Camp Holabird, and there was some work also done for Ordnance over at Aberdeen. But the thing was tested at Aberdeen, and Mr. Walker, who is here present, investigated all those records, and men were assigned by the quartermaster's group to see to it that when we took the depositions at Camp Holabird no valuable military information got out, and some of the material was withheld from us and Mr. Walker is fully fa-
[fol. 88] miliar with all that background. He also was present at the trial, so the Board really does have the information and has had the records of that suit.

Mr. Farley: May I ask a question, as I am more or less of a novice in this particular matter? My understanding of Judge Kirkpatrick's decision and the statement made is to the effect that all the evidence in the Holabird use was placed before Judge Kirkpatrick?

Mr. Strauch: All the evidence we could get.

Mr. Farley: You got all the evidence there is. All that you could get. Are you going to manufacture some more in the meantime or not?

Mr. Strauch: I don't manufacture evidence, Mr. Farley. I know you don't. I would not accuse you of that, but the situation with respect to this suit was that if they had been reasonable about the scope of the thing, it probably would not have been litigated, but they asked us to pay royalties on everything we were making and we had gone and set our price to the Government charging royalties only on such things that we thought were going to be under the first four claims. But they wanted us to go ahead and buy for the future, if we were able to get it, but we were to pay these royalties in very large sums, on past business, so that the litigation was brought on for that reason, and for another reason that Mr. Walker may or may not know. I don't know whether he was with the Quartermaster's group at that time, but Mr. Smiley, who was in the Quartermaster's group, asked us to check it up because all these other vehicles that would be involved were using these cases, and we stuck our necks out to that extent, although we did have a break, at least. We did get a decision clearing all these other cases. But we were asked to go ahead with it by Mr. Smiley, who represented the Quartermaster Corps at that time.

Mr. Schenck: In the first place, we don't claim royalties on everything they make. We only want our claims one, two, three, and four.

Major Cockrell: Only the first four—one to four?

Mr. Schenck: No, not that. He says they claim it, but we don't. They went to Camp Holabird the 18th and 19th and dragged out all of these old records and found day after day they used our design and are still using it, and the Government paid for it. We never claimed that we made [fol. 89] the four wheel drive. What we did was take a drive and simplify it with a new set of gears. We did not invent the four-wheel drive. We heard of it after it had been used some time. That all came out during the trial. Those things that he has mentioned, we did not claim them at all.

Mr. Strauch: The answer to our bill claimed they knew nothing about the Ruggles and Smith invention, never made claims to that effect. What happened, Ruggles and Smith died and the claims were expanded, and the claims five to twelve covering the subject matter that Ruggles and Smith never swore to at all, and I don't think there is a supplemental oath in the file. The inventors themselves never claimed to have invented anything. But they claimed the four-wheel drive.

Mr. Farley: Why didn't you mention all these things in the sessions?

Mr. Strauch: I was ready and willing, but my client did not want to put up the money.

Mr. Farley: Isn't that rather a belated sort of thing, after they entered into a contract like this on which at that time seemed to them to be the most convenient reasons, they now are trying to take the whole thing back.

Mr. Strauch: Contract says and still says that we pay on the inventions that Ruggles and Smith made. We didn't agree to pay on anything else. It was an obligation and we agreed to pay on all the inventions of Ruggles and Smith.

Mr. Farley: The contract speaks for itself.

Mr. Strauch: It sure does.

Major Cockrell: This particular proceeding is not instituted by the Timken Detroit Axle Company. This proceeding has been instituted by the Chief of Ordnance.

Mr. Schenck: The main question is whether or not these royalties are excessive.

Major Cockrell: Any royalty is excessive if the patent is invalid.

Mr. Farley: I think I would agree to that. What is the further proceedings, Major? It seems to me, of course, that if the Board are contemplating going into the question of the validity of the patent, would it or should it not be [fol. 90] decided by the presentation of full evidence that the Alma Motor Company have, and the right to be represented by a counsel, to cross-examine, and all that sort of thing.

Major Cockrell: I don't believe so. It is not proposed that there shall be any argument in this proceeding at all. This hearing is for the purpose of hearing anything you fellows want to present in writing or orally bearing upon the decision of the Chief of Ordnance to order that these royalties shall be something different than they are now.

Mr. Strauch: The answer to Mr. Farley's question is that the law provides for action in the Court of Claims.

Major Cockrell: Yes, and your claimant has an opportunity to recover in the Court of Claims under the law.

Mr. Farley: Yes, I know that. Well, then, of course, the attitude of the court would be whether it is or is not a question of the reasonableness of the royalty or more a question of royalty or no royalty?

Major Cockrell: No, I would not say that. You have a statement in there that the patent is invalid.

Mr. Farley: Yes.

Major Cockrell: The opinion of the Chief of Ordnance is that the patent is invalid.

Mr. Farley: I haven't any of that evidence before me. I am going on Judge Kirkpatrick's opinion, and I am afraid that is more strongly than anything else.

Mr. Schenck: Of course, we don't think that.

Major Cockrell: If I am correctly informed, the depositions they were referring to at Camp Holabird, while they were taken by Judge Kirkpatrick, they were not permitted to be read into the record on the trial.

Mr. Schenck: Yes, they were—all of them. Everyone of them.

Major Cockrell: Then I have been misinformed. They went over each one of them?

Mr. Schenck: Yes, they were all gone over.

Mr. Strauch: They were not read into the record, but it is true they were introduced.

[fol. 91] Mr. Schenck: They would come down with blue prints one day, and the next day would prove our record didn't show that. There was a lot went on there.

Lt. Com. Chappell: Is a copy of that record available?

Mr. Schenck: We haven't a copy but Rex Frye has a copy of it. All these things that he spoke of about in regard to Spicer and everything were gone over every day.

Mr. Strauch: The depositions were summarized and were offered into the record, but the court did not allow them to be read.

Major Cockrell: The court refused to consider those depositions.

Mr. Strauch: Just waived them aside.

Major Cockrell: Timken was estopped from offering any evidence on the validity of the patent?

Mr. Schenck: We made a motion to set aside all the evidence before he did that. He didn't rule on that until he heard our evidence and had gone over each and everything.

Mr. Strauch: He did decide that we were estopped to contest the validity. He did decide that.

Major Cockrell: This contract will be offered in evidence.

(The contract in question was marked for identification Exhibit "C" and is hereto attached and made a part of this transcript.)

Lt. Col. Herrstrom: What was your authority, Mr. Strauch, in introducing your deposition into court? Were you going on the theory that they tend to limit the claims or invalidate them?

Mr. Strauch: They invalidate the claims. They never did anything else. The only difference between the Ruggles & Smith design and the Holabird design was that they did not use the same jaw clutching mechanism for shifting the lower gear in and out of engagement, and the claims of Ruggles and Smith were broad enough not to be allowed on it. The very same gear was old at Camp Holabird. They had both a Timken job of a gear with a sliding clutch on the top shift with both engaging gears acting as a coupling, and they also had a Spicer job,—a synchronizing job where you did not use a high mechanism to clutch with the gear—

and the only ruling could be invalidity. For there is no room for difference in scope.

[fol. 92] Mr. Schenck: These models they speak of were made and sold long before we got into the picture, but the Army doesn't want them any more. We proved very clearly that there is a difference between these old jobs and ours. We sold these and everything was fine before they quit buying them. They don't want them. Ours are different. They are new. They wanted them.

Mr. Strauch: Your application was not filed until over a year after the Timken type was sold to the Government?

Major Cockrell: These Spicer cases that are now being manufactured for lighter vehicles, do they infringe your patent?

Mr. Schenck: Yes, we think so—we think they do.

Major Cockrell: Any action being taken against the Spicer people?

Mr. Schenck: No, sir!

Major Cockrell: For what reason?

Mr. Schenck: We didn't have the money. We didn't have money to hire an attorney. Had to go out and make a deal. Didn't have a penny of any kind. They had all the money and we didn't have anything to do with it.

Mr. Strauch: Have you made a deal with your present attorneys?

Mr. Farley: What was that?

Major Cockrell: I don't think we are interested in that. I think Mr. Farley can look after himself.

Lt. Com. Chappell: Mr. Schenck has spoken of the difference in construction between the two jobs—could you state in detail what those differences are?

Mr. Schenck: These jobs were brought out year after year though they had made some and sold to the Government. During the trial they brought all this out and showed they had made a sale and we came along and showed that our job was different from theirs. The Government quit buying those jobs. The kind they are buying today is our job. Does that answer the question or not?

Mr. Strauch: I cannot tell you how your jobs were, Mr. Schenck, but I know ours are different. The drive came out from the lower shaft and that required the use of what was a non-standard axle. When the Government went to the type of design it is now using, we wanted to use a drive

on the upper shaft and use a standard axle so that they would not have to throw an offset. Both Timken and others [fol. 92½] went ahead and put the regular transmission on the top shaft like any other automobile drive and that made a difference in the design. The Timken Company is the one that sold that to the Government and sold it to the trade generally for over a year before the Ruggles & Smith applications were ever filed. The Alma Motor Company never did have that kind of a job because there is no question of the Alma Motor Company making the design and then doing all the creation before Timken did that. They never did and the court record never showed they made a single transfer case of that kind.

Major Cockrell: How many cases have you made under this Ruggles & Smith patent?

Mr. Schenck: About fifteen. We did not have the money. We designed it and tried to raise money by selling stock and raising money that may, but a lot of things happened and we never got started. If you want the difference between our job and their job, I can bring our engineers in. That is too complicated for me. I would appreciate being allowed to do that. There is a difference—there is no doubt about that. I would like to bring them in and show you.

Mr. Strauch: Mr. Schenck's statement does not conform to the record to this extent that Mr. Kysor, the engineer who testified at the trial, said they were of the Kysor design. They didn't use the Kysor design because they did not have the money to develop their own but because they thought the Kysor design was better in 1935. That is in the record. They had intended to go to their own design although Kysor, the engineer, proved his design was better than this one.

Major Cockrell: What does Alma Motor Company do. What do they make?

Mr. Schenck: Build stock tools, bolts for Defoe——

Major Cockrell: Nothing of this kind?

Mr. Schenck: No. We are running twenty-four hours a day.

Major Cockrell: But you are not doing anything of this sort?

[fol. 93] Mr. Schenck: We were closed down. We didn't have a penny when the war came on and we borrowed $350.00 and opened up. We just didn't have the money.

We did well after we got started. We are still just a little outfit. We have got 79 men working there twenty-four hours a day, and we are doing a pretty good job, as good as we can, but we were hampered by lack of funds. Our work seems to be very satisfactory to everybody we deal with. It is the only way that we could get into something and put our machinery to work.

Major Cockrell: It seems peculiar that you should be able to raise money to produce other items for the Army and Navy and yet are not able to raise capital to produce an invention which belonged to you.

Mr. Schenck: This was produced at a time when we did not have any money.

Major Cockrell: There is a demand throughout the country for this particular invention. You can raise money to produce other items for the Government, but you cannot raise money for this.

Mr. Schenck: Timken is making it and other people are making it. We would not have the money for the tool cost on a thing of that kind.

Mr. Farley: There is quite a distinction between that kind of production.

Lt. Col. Herrstrom: Is Mr. Strauch correct in saying you made a single and double transfer case?

Mr. Schenck: We went over everything at the trial. We made a single and double. They took our drawings and had their attorney go over the patents and also Mr. Herrington and Mr. Heald go over it. Naturally they would not sign a contract and pay us $1500.00 until they were satisfied we antedated them. We proved that.

Lt. Com. Chappell: Can you give us the relation of the case to the chassis?

Mr. Schenck: What do you mean by that?

Lt. Com. Chappell: How would you do it—extend the shaft to the front wheel?

Mr. Schenck: Came out of the bottom. Came back and dropped down to the bottom.

[fol. 94] Lt. Col. Herrstrom: Your forward shaft was in a low position relative to the shaft on the rear?

Mr. Schenck: Yes, to the front.

Lt. Col. Herrstrom: So that you had the low shaft on the rear.

Mr. Schenck: Sir?

Lt. Col. Herrstrom: Do you have a de-clutch element?

Mr. Schenck: Yes.

Lt. Col. Herrstrom: Single or double?

Mr. Schenck: Single and double both. When you get to that point, I want to call in my engineers; I cannot testify to that. They know more about that than I do.

Mr. Strauch: They put that single speed case on the market, offering it for sale in 1934; that was after they offered it to Holabird. In May of 1935, they still sent a cut of that single speed job up to Holabird. That was developed in the deposition and the Timken case was delivered and sold early in January of 1934, but their single speed case is not on the market.

Mr. Schenck: We had ours in the field in 1933. We went all over that at the trial.

Major Cockrell: Doesn't it seem a little peculiar that Timken entered into this agreement with Alma, promoting Alma's prior claim to the invention and then all of this stuff comes up again now?

Mr. Strauch: Yes, that was due to the fact that we thought they might have something in the first four claims. The agreement was made with the understanding that this whole thing would be submitted to the Patent Office and the Patent Office would determine what was patentable and what was not and that was never done.

Major Cockrell: Does this agreement show that the prior art situation was to be aired in the Patent Office?

Mr. Strauch: No, but it specifically disclaims two types of design. Did not mention the Spicer design at all—there were two agreements. There was one agreeemnt that mentioned the specific cases from which the disclaimer was [fol. 95] made and that was the first signed agreement; and then the later agreement that was put into effect. There are two agreements—they were within a few weeks of each other.

Major Cockrell: This agreement which Mr. Farley has given us was the 16th of May and I have another agreement here the 26th of May.

Mr. Strauch: The 26th of May is the one that went into effect.

Major Cockrell: Which is the one the Judge referred to in his decision? He says that the one that governs (he refers to it in this way)—as the "governing" agreement.

Mr. Strauch: In the 16th of May agreement, the first one, you will find a statement that the claims that were disclaimed were disclaimed from the uses standpoint on T-9. They did not go into the Spicer job, and the testimony and the record confirms this in that the Spicer job was to be submitted to the Patent Office and if they could get back of that Spicer job and get these claims approved, that was O. K. But they did not call the Spicer job to the attention of the Patent Office, and that is why, when the demand for the patent came up, we refused to pay them anything except the first four claims just as soon as the patent came out.

Mr. Schenck: When we entered into this agreement, they had Mr. Strauch and Mr. Davis and Mr. Hahn, of Hood & Hahn, to go over them. They did not agree to anything of that kind. Why should they agree?

Mr. Strauch: In that May 16th agreement you will see that the Spicer was not mentioned at all as a basis for any disclaimer.

Mr. Schenck: They had it at the meeting, and had the drawings and went over everything.

Major Cockrell: What they might have had at the meeting is of no importance. This merges into the agreement. All these meetings were merged into that agreement. I have not seen this agreement before.

Mr. Schenck: That is what they agreed to in the agreement. That is the result, right there.

Mr. Strauch: Based on the disclaimer and they contended they would not agree that they could not beat the Spicer date. We said "all right, if you can beat the Spicer date and get the claims, they are good claims and we will enter into the agreement," but the Spicer date was never put up to the Patent Office with the claim. I think we can point [fol. 96] that out in the agreement. Isn't it peculiar that it was not mentioned in the agreement? It was certainly at the conference.

Mr. Farley: I would like to ask if I could respectfully ask a question as to whether or not there is any contention there was a waiver of the rule of law that parties entering into a contract must be bound by the terms of the contract.

Major Cockrell: This board is not interested in enforcing any contract.

Mr. Earley: I understand that. But that refers to things that were agreed on but not put in the contract.

Major Cockrell: I don't know anything about what is not in the contract. There is nothing in the contract between Timken and Alma Motors Company to that effect.

Mr. Strauch: That Timken—Alma job, and that is the basis for this disclaimer—they would not agree that the Spicer job was ahead of it and they were going to convince the Patent Office, and file affidavits that they were ahead. This was the early case. The large size types were like that. That was the Spicer gear and in this one the T-9 case, the drive was shifted in the usual way by having a sliding gauge on the top shaft. Spicer's case had a synchronizing or constant transmission gear and they had the two or three transmissions on the bottom gear and they had a standard transmission method of protecting the shifting of this speed shaft, a lock transmission shaft and pilot bar. This shank is extended out to drive the gear and when we made that agreement, we had this Spicer job, as Mr. Schenck stated, and the reason it was not mentioned in the agreement was the reason I have told you, and there could be no other reason. They would not agree then, that this was ahead of it—that is the Spicer job. There were two jobs worked out by Holabird. They had these designs and they had his designs and they called Spicer in and gave Spicer the choice of making the Wisconsin axle job with this type of declutch in the job.

Major Cockrell: Who called Spicer in and told him that?

Mr. Strauch: Holabird, and they gave them two layouts. They gave them another of this type. Spicer bid on this job when they had it and then lost the business because it was more expensive than the Timken job, but if there ever was any evidence, this early agreement which was superseded by the other one, is clear evidence that the [fol. 97] Spicer job was not the basis for our disclaimer at all. What we said was the date should have been the governing thing but the Spicer disclosures should have been called to the Patent Office's attention with affidavits filed going back of it. We had something put over on us—that is all that happened there.

Mr. Farley: I am very much surprised that Strauch should—that an able attorney like you,—that anything was put over on you. I did not think that was possible.

Mr. Strauch: That happened to me.

Mr. Schenck: That is a joke. Anybody putting anything over on Timken.

Major Cockrell: What facts did you expect to present with regard to the reasonableness of the royalties? That is the reason you requested the hearing.

Mr. Schenck: That is right. We read your notice and supposed that is what it was. Better let Mr. Farley speak on that subject.

Mr. Farley: I think I covered the subject thoroughly in the remarks I made a while ago, my understanding being so. Is that correct, Mr. Strauch, that the transfer cases are sold to the Government at the price of $100.00 a piece?

Mr. Strauch: That is right.

Mr. Farley: A fifty cent royalty for a one hundred dollar job seems to me speaks for itself. I could not argue more than give you these figures. We men who are in the patent business know that a 5% royalty ordinarily is considered a reasonable royalty, and I think and know it is one that has been adopted by the courts more frequently than any other one I know of, when it comes to setting a reasonable royalty.

Mr. Strauch: What designs do you say—the designs are all identified specifically in that record—what designs do you say they are entitled to royalties on?

Mr. Farley: I have not the slightest idea in the world. As I say, all I know about this case is what Mr. Schenck told me Saturday. A fifty cent royalty is covered by this contract, and, of course, all these a, b, d, t's and x's don't mean anything more to me than an arithmetical proposition.

Mr. Strauch: On the T-43 type has the Government been charged that royalty? On T-32, if that rate has been paid, Timken will have to pay them on that basis in the future. Of course I suppose the Government ought to be willing [fol. 98] to pay for future business whatever the price is going to be to that extent. There are thousands and thousands. They claim royalties on each one in their answer and they continued to claim royalties until the 3rd day of the trial on each one, and then they withdrew claims on a large number of them. Is that royalty supposed to stick if the board disclaims any royalties on it for all design numbers?

Mr. Schenck: That is correct. Our attorney, Mr. Frye, at that time, stated that the one on which we claim. We withdrew from the other.

Mr. Farley; The opinion definite stated that three different types were not covered by the claims. May I make this suggestion? It seems to me it thrusts a lot of work on the engineers. I think, on behalf of Alma, we could agree, if it would be of any assistance to you, and I assume that you have in your files assembled drawings of all these various types of construction. Now I also assume that the Government is not making purchases, or is not interested in the purchase of every one of this conglomeration of things. I assume there must be one or two standard designs that have been approved. Is that a violent assumption or not?

Mayor Cockrell: How many of these transfer cases are you interested in purchasing?

Mr. Gallagher: I could not tell you that.

Mr. Farley: Could we ask—I realize that there may be some good military reasons why the Government would not want to send out drawings of what is being manufacturned for it, but I presume probably if I produce a verified certificate that might be sufficient to submit drawings made for Alma to their counsel, either myself or Rex Frye, and, of course, understand, I am sort of pinch hitting here today for Rex. Until the Government specifically states what types of transmission are now being used by the Government, how is the Alma Company, themselves, to know they are entitled to royalty.

Mayor Cockrell: I think we should have that information in order to check one against the other.

Mr. Schenck: Those numbers there are all Timken's. We do not have their drawings. We have some of them, but I don't know just how many we have.

[fol. 99] Mr. Farley: As far as Spicer is concerned, you appreciate, I am not able to answer more fully your questions, particularly as to why they have never satisfied Spicer. Of course, as far as that is concerned, Spicer is manufacturing for the Government and we cannot sue them now. No can do. The only course is, sue the Government in the Court of Claims. Anybody that will try to sue the Government now would be a darned fool. We better wait until it is all over before we sue the Government. At least I would not be a party to such a suit at this time.

Major Cockrell: It is not improbable that the result may be, of your royalties there, Timken will be in the same category and as to those who may be claiming from Spicer, we think that they will be settled in the Court of Claims after the war is over.

Mr. Strauch: If you are going to talk about thousands, I think you should speak of the thousands manufactured by Ford, Spicer, Chrysler, General Motors and others because I think the whole thing ought to be cleared up.

Mr. Farley: That is a lot of territory. I may have to step out of the picture if you are going to include Ford.

Mr. Schenck: If they don't live up to their contract, we are not going out and sue anybody. If we cannot collect from them, we certainly cannot collect from anybody else, so we ignore it.

Major Cockrell: There is another question there might be an answer to. You have a contract with Timken for royalties—why don't you sue Timken on their royalties?

Mr. Schenck: We told them before the way that we wanted them and they started a suit on the company.

Major Cockrell: Who won the suit? Why didn't they get the money?

Mr. Schenck: I don't know.

Major Cockrell: I am not a lawyer, but if you won a suit you ought to get something out of it.

Mr. Farley: The court ordered that the parties get together and stipulate as to the royalties, but I understand from Mr. Schenck that Mr. Strauch has agreed to make a deal for some $25,000.00 or so—just agreed again. Mr. [fol. 100] Schenck, who was very much out on the amount of royalties actua' ; due and accrued at the present time, should be able to explain that. Now, of course, this is the judgment of Judge Kirkpatrick, which was rendered November 25, 1942, and it provides that if the parties do not stipulate before the date mentioned, Alma is given leave to apply to the court for the appointment of a Special Master to ascertain the facts and report to the court. That would mean going through an accounting before the Master. Of course, the November 25th judgment was rendered at that time; but it would be about February 25th when the court actually took steps to go into an accounting, and naturally he would not take those steps if it was learned that one side or the other had appealed.

Mr. Strauch: The suggestion was made, I think, by Mr. Frye, that we might be able to settle the whole thing by taking the whole thing over for $25,000.00 and I said I would see what I could do about that. That is as far as it went, but the answer has been that there was not $25,000.00 in it and I think Mr. Farley has over-estimated by a considerable amount when he says $25,000.00 is due.

Mr. Farley: I am not going to hazard a guess. I haven't the slightest idea what the situation is in regard to that.

Major Cockrell: What is your guess on the claim in regard to unpaid royalties?

Mr. Schenck: We have never figured it out, but we think it is around $100,000.00 and we have received about $2,000.00 so far.

Major Cockrell: It seems to be considerably difficult to get the exact figures as to what is due. How can we arrive at some agreement?

Mr. Schenck: I am guessing at it. There has not been much paid on it and we based that low rate of fifty cents on the number of materials that they got under our patent. That is the only way we could arrive at it.

Mr. Farley: That is about your recollection, Mr. Gallagher?

Mr. Gallagher: I think about $20,000.00.

Mr. Strauch: Mr. Gallagher said to figure about $20,000.00—that he reported each quarter on the number of cases that were made on their request and we told them right off the bat when that patent first came out that we [fol. 101] were not paying anything except on the first four claims, so that is the way that stands. I think the heavy production on the ton and a half jobs was made by Chrysler, Ford, Willys-Overland and Spicer supply units—those are the people that made the big volume of jeeps and peeps and small one and a half ton jobs.

Mr. Farley: I wonder, in order to keep your records complete, if you should not have a copy of this judgment. I think that is offered in evidence. Do you want to look at it with Mr. Strauch?

Mr. Strauch: I will check the numbers and see if they are all right. Yes, except for possible errors in tabulation in there, that is the form of the decree.

Major Cockrell: That is the decree of the court?

Mr. Strauch: Yes.

Major Cockrell: That will be entered as Exhibit "D"

(A copy of the decree, marked for identification Exhibit "D" is hereto attached and made a part of this transcript.)

Do you think of anything else, Colonel?

Lt. Col. Herrstrom: No, sir?

Lt. Com. Chappel: Has somebody a copy of the record of the proceedings of the court before Judge Kirkpatrick?

Mr. Strauch: I have that.

Major Cockrell: You can supply us with a copy of that?

Mr. Strauch: I will lend you a copy and you can copy it.

Major Cockrell: All right.

Mr. Strauch: You fellows in Washington have taken all our girls away from us and we have trouble in getting anything copied.

Mr. Farley: Maybe I have overlooked something. Is there any particular conclusion reached as to whether or not the Government would accept, or rather be willing to deliver to the Alma Company or their duly accredited representatives, either myself or Mr. Frye, the drawings of the various constructions that are being employed by the Government, and then it is a question of opinion as to which one the Alma Company considers is covered by the claims of the patent.

[fol. 102] Major Cockrell: I don't know whether that was done or not.

Mr. Farley: I was wondering if any decision had been made?

Major Cockrell: There has been no decision, but we can investigate for you.

Mr. Farley: I think it would be quite helpful to the board to know just what the contentions of the Alma Company would be so as to indicate to you what scope the thing would grow to. I did not know it was going to involve, or might involve a large amount of documentary proof.

Major Cockrell: We will determine if it is possible to submit the Alma drawings of the transfer cases that are being made by the Government which come under their patent, in their opinion. We will see if that can be done.

Mr. Strauch: Mr. Farley would have no difficulty in getting those prints from Ford, and Ford's prints would cover the same design as Willys-Overland and Spicer and those others. You ought to be able to get a print of that very easily.

Mr. Farley: You say would I be able to get them?

Mr. Strauch: Yes; the Ford Motor Company.

Mr. Farley: Of course, if Ford is going to be involved, I will have to efface myself from this picture. I am counsel for the Ford Company, and, in fact, I just came from there, and naturally, if there is a conflict of interests between Ford and Alma, I would have to efface myself from this picture.

Mr. Strauch: I also know there are new designs of transfer cases—new designs that are not under the scope of this thing, which, I doubt very much if the Government would want to let them out.

Major Cockrell: We would determine whether the office drawings can be available to Alma Motors Company for examination to see if they come within their patent. We cannot say that the Alma Motors Company will be allowed to examine those drawings, but as far as possible that permission will be given them.

Mr. Farley: I was going to say if the Government is satisfied that the royalty is reasonable and the various contractors grab up the fifty cent royalty in each of the bills, that they are being reimbursed by the Government for any royalties they pay, and I know that has been included [fol. 103] in other contracts that have royalties included, but I don't suppose that any of the contractors would pay it out of their own pockets.

Major Cockrell: If that is all, the meeting will be adjourned.

(Whereupon the meeting adjourned.)

[fol. 104] EXHIBIT "A" TO TRANSCRIPT OF PROCEEDINGS

War Department

Office of the Under Secretary

Washington, D. C.

February 2, 1943.

Memorandum for The Chief of Ordnance

Subject: Further Delegation of Authority under the Act of October 31, 1942 (Public Law 768, 77th Congress, 2nd Session).

1. Reference is made to the memorandum dated November 20, 1942, as amended on January 30, 1943 (herinafter referred to as the Delegation of November 20, 1942) of the Secretary of War regarding the delegation of authority under the Act of October 31, 1942, Public Law 768, 77th Congress, 2nd Session (hereinafter referred to as the Act).

2. Such of the powers, duties and authorities conferred upon the Secretary of War by the Act as are referred to in clauses (2) and (3) of paragraph 1112.8 of Schedule 1 annexed to the Delegation of November 20, 1942, are hereby further delegated, with respect to the patent and agreement referred to in the Notice dated December 30, 1942, a copy of which is hereto attached, marked Schedule A, to Major Wayne L. Cockrell, Production Service Branch, Detroit Ordnance District Office, whose action under this delegation will be subject to review and approval by the Chief of Ordnance and, as provided in clause (3) of said paragraph 1112.8, to the approval of the Director, Purchases Division, Headquarters, Services of Supply.

3. The powers, duties and authorities conferred in the Delegation of November 20, 1942 to the Chief of Ordnance and the Deputy Chief of Ordnance, as well as the powers, duties and authorities herein conferred upon Major Cockrell, may be exercised with respect to any contract, subcontract, or purchase by the War Department involving the patent and agreement referred to in Schedule A. In the exercise of such powers, duties and authorities, herein referred to the representatives of the Ordnance Department will consult with representatives of any supply service

known or believed to be concerned, and will be under the direction of the Under Secretary of War.

(S.) Robert P. Patterson, Under Secretary of War.

1 Incl.—Cy of Notice.

[fol. 105] EXHIBIT "C" TO TRANSCRIPT OF PROCEEDINGS

License Agreement

This Agreement, made this 16th day of May, 1938, between the Alma Motor Company, a Michigan Corporation having offices at 884 Penobscot Building, Detroit, in the County of Wayne and State of Michigan, hereinafter called "Alma"; The Timken-Detroit Axle Company, 100-400 Clark Avenue, Detroit, in the County of Wayne and State of Michigan, hereinafter called Timken; and Arthur W. Herrington of Indianapolis, Indiana, hereinafter called Herrington, Witnesseth, that

Whereas, Frank W. Ruggles and Charles D. Smith have invented certain improvements in Auxiliary Transmission for Four-Wheel Drive Automotive Vehicles, hereinafter referred to as "Transfer Cases", and disclosed in an application for Letters Patent of the United States, filed February 23, 1935, and bearing Serial No. 7751, and which has been duly assigned to the Alma Motor Company, and

Whereas, Alma is the owner of the entire right, title and interest in said application, and

Whereas, the said application Serial No. 7751 is now involved in an Interference No. 73,919 with a certain application of one Beverly W. Keese, for Power Transmitting Mechanism, filed August 3, 1935, and bearing Serial No. 34,621, and duly assigned to Timken; and also with a certain other application of said Herrington for Power Shaft Unit for Four-Wheel Drive, filed February 25, 1935, and bearing Serial No. 7,976, and

Whereas, certain of the counts of said Interference No. 73,919, to wit, counts 1, 2, 3, 4, 6, 11 and 15 are too broad in view of a Transfer Case developed by the government at Camp Holabird, Maryland, known as the T-9 Wisconsin Transfer Case, shown in a Wisconsin Axle Company print dated November 13, 1931, and in Camp Holabird print No. 04501 SKT 08869 dated June 8, 1931; and

[fol. 106] Whereas, Timken is desirous of manufacturing and selling "Transfer Cases" embodying the said improvements disclosed in said application Serial No. 7,751 which were not embodied in said T-9 Wisconsin Transfer Case;

Now, Therefore, in consideration of the foregoing premises and in consideration of the faithful performance of the covenants and conditions hereinafter set forth the Parties hereto hereby agree as follows:

(I) The Parties hereto hereby agree to disclaim in said Interference 73,919 the subject matter of said T-9 Wisconsin Transfer Case and the counts in said Interference readable thereon, to wit, counts 1, 2, 3, 4, 6, 11 and 15.

(II) Timken and Herrington hereby agree not to contest the right of Alma to the claims of said application Serial No. 7,751, forming the issue of said Interference No. 73,919 and further agree to file written "concessions of priority" as to the remaining subject matter in said Interference 73,919, not disclaimed under Paragraph I hereof by the Parties in said Interference.

(III) Alma hereby licenses and empowers Timken to make, use and/or sell, subject to the conditions hereinafter named, and to the end of the term for which letters patent may be granted on said application Serial No. 7,751, or any divisional, continuation or reissue application based thereon, "Transfer Cases" embodying the aforesaid improvements, within the United States, its territories and all Foreign countries.

(IV) Timken agrees to make full and true returns to Alma, upon the first days of January and July in each year, of all "Transfer Cases" embodying said improvements manufactured, used and/or sold by them and upon which royalties are due hereunder.

(V) Timken agrees to pay Alma Fifteen Hundred Dollars ($1500.00) immediately upon the execution of this agreement; and agrees further to pay to Alma from and after the date of issue of a patent to Alma, under said application [fol. 107] Serial No. 7,751, with claims dominating Transfer Cases made by Timken, a royalty of Fifty Cents ($0.50) on each "Transfer Case", embodying said improvements for vehicles having a gross weight up to 14,000 pounds, Seventy Five Cents ($0.75) for vehicles exceeding 14,000 pounds

and up to 23,000 pounds, One Dollar ($1.00) for vehicles exceeding 23,000 pounds and up to 35,000 pounds, and One Dollar and Fifty Cents ($1.50) for vehicles exceeding 35,000 pounds.

(IV) The liability of Timken for the payment of royalties under Paragraph V shall continue for the entire term of this license agreement, as set forth in Paragraph III, or until terminated as herein provided, or until, in any suit brought on said letters patent, it shall be finally held that all claims dominating the "Transfer Cases" made, used and/or sold by Timken are invalid, whereupon said liability shall immediately cease.

(VII) Upon failure of Timken to make returns or to make payment of license fees, as herein provided for, for sixty (60) days after the days herein named, Alma may terminate this license by serving a written notice upon Timken; but Timken shall not thereby be discharged from any liability to Alma for any license fees due at the time of service of said notice.

(VIII) Alma hereby agrees that at any time from and after the issue of a patent to it within the scope of the present agreement, it will, within sixty days after service on it of notice in writing of unlicensed manufacture by others of Transfer Cases within the scope of the present agreement, institute and diligently prosecute suits against such unlicensed manufactures to enjoin such unlicensed manufacture, and if Alma neglects or declines to institute and to actively prosecute such suit or suits to a final decision, or in event [fol. 108] that the patent claims of Alma dominating said transfer cases are held invalid in such litigation, then Timken shall be relieved of its obligations to pay royalties to Alma as provided above.

In Witness W[illegible]of, the Parties above named have hereunto set their hands the day and year above written at Detroit, in the County of Wayne and State of Michigan.

Alma Motor Company, (Sgd.) by William W. Schenck, President; The Timken-Detroit Axle Company, (Sgd.) by R. J. Goldie, Vice Pres.

In the Presence of: (Sgd.) Albert J. Taylor, J. E. Gallagher.

[fol. 109] IN THE UNITED STATES DISTRICT COURT FOR THE DISTRICT OF DELAWARE

Civil Action No. 198

THE TIMKEN DETROIT AXLE COMPANY, Plaintiff,

vs.

ALMA MOTOR COMPANY, Defendant

Before Honorable William Kirkpatrick, District Judge.

JUDGMENT

This cause having come on to be heard, upon pleadings and proofs presented in open court by both parties, and after briefs were filed by both parties and other due proceedings had, it is hereby Ordered, Adjudged and Decreed as follows:

1. That Letters Patent of the United States No. 2,173,044, issued September 12, 1939, on the invention of Ruggles and Smith for "Auxiliary Transmission for Four-Wheel Drive Automotive Vehicles" is owned by the defendant, Alma Motor Company.

2. Plaintiff is a licensee under such patent and has been since the issuance thereof on September 12, 1939.

3. Plaintiff is estopped to contest the validity of said Ruggles and Smith patent herein.

[fol. 109a] 4. That plaintiff has manufactured and sold auxiliary transmission mechanisms since the issue date of said Ruggles and Smith patent which are dominated by one or more claims of such Ruggles and Smith patent, as follows:

A-559	A-32	PX-34
A-468	T-32-9	PX-90
A-477	T-42-G	DX-21
A-477	T-43-H	DX-21
A-595	T-32-15-1	PX-91c
A-338	T-32-2	PX-90
SKt-6338	T-32-13-1	DX-21
A-582	T-32-13-3	PX-91n
A-605	T-32-23-1	PX-91f

are dominated by claims 5, 6, 7, 8, 9, 10, 11 and 12.

SKT-6338	T-32-13-2	DX-21
A-596	T-32-13-4	DX-21
A-612	T-32-13-5	DX-21
A-612	T-32-13-6	DX-21

are dominated by claim 10 only.

A-626	T-43-P-1	PX-91h
A-626	T-43-V-1	PX-91h

are dominated by all claims except 4;

and that plaintiff should have paid to defendant royalties in accordance with the license agreement on all such auxiliary transfer cases.

5. The remaining auxiliary transmission mechanisms manufactured and sold by plaintiff since the issuance of the Ruggles and Smith patent either are not dominated by any claim of such Ruggles and Smith patent or no claim of royalty thereon has been made by defendant in this suit.

[fol. 110] 6. That unless plaintiff and defendant shall stipulate and agree in writing within thirty days from the date hereof as to the amount of royalties or license fees due from plaintiff to defendant under the license agreement, with interest at the rate of 5% per annum from the dates when such royalties or license fees became due, the defendant is given leave to apply to this court for the appointment of a Special Master of this Court to ascertain, take, state and report to the Court the number of auxiliary transmission mechanisms, upon which royalties are due under the opinion, findings and conclusions of the Court, manufactured and sold by plaintiff since the issuance of the Ruggles and Smith patent, up to the date of this Judgment, and to determine the number of such auxiliary transmission mechanisms upon which royalties due from plaintiff and payable to the defendant at the royalty rate specified in the aforesaid license agreement.

7. That the taxable costs of this action, other than the costs of the accounting provided for in paragraph 6 hereof, shall be divided between the parties, three-fourths to be paid by the plaintiff and one-fourth by the defendant.

—— —— United States District Judge.

Dated: November 25, 1942.

(Here follows 1 photolithograph side folio 111)

EXHIBIT "D" to MOTION

United States of America

WAR DEPARTMENT

WASHINGTON, 29 July, 1943

I HEREBY CERTIFY that the attached is a true copy of Royalty Adjustment Order No. W-3, issued 28 July 1943, in the Matter of Alma Motor Company, Licensor and Detroit-Timken Axle Company, Licensee, the original of which is on file in the Office of The Adjutant General.

J. A. ULIO,
The Adjutant General.

I HEREBY CERTIFY that J. A. Ull[illegible], who signed the foregoing certificate, is the The Adjutant General, and [illegible]tification as such full faith and credit are and ought to be given.

IN TESTIMONY WHEREOF I, Robert P Patterson, Acting Secretary of War, have hereunto caused the seal of the War Department to be affixed and my name to be subscribed by the Assistant Chief Clerk of the said Department, at the City of Washington, this 29th day of July, 1943

Robert P Patterson
Acting Secretary of War.

WAR DEPA[illegible]
Form No. 7

111

By J. C. Cook
Assistant Chief Clerk

D—38168

111

924

[fol. 112] Royalty Adjustment Order No. W-3

War Department, Washington

Royalty Adjustment Order No. W-3

(Act of October 31, 1942, Public Law 768, 77th Cong.)

In the Matter of Alma Motor Company, Licensor

and

Detroit-Timken Axle Company, Licensee

Dated: July 28, 1943.

[fol. 113] Royalty Adjustment Order No. W-3

(Act of October 31, 1942, Public Law 768 77th Congress)

In the Matter of Alma Motor Company, Licensor,

and

Detroit-Timken Axle Company, Licensee

War Department Contract Nos. —

The licensee, Timken-Detroit Axle Co. is a sub-contractor for many prime contractors and War Department contracts under which the licensee works as a sub-contractor, cannot be completely identified.

Contractor: Timken-Detroit Axle Co. is the sub-contractor.

Whereas, pursuant to authority contained in the Act of October 31, 1942 (Public Law 768, 77th. (Congress) written notice was given on or about December 30, 1942 to Alma Motor Company, licensor (hereinafter called "Licensor") and to Timken-Detroit Axle Company, licensee (hereinafter called "Licensee") that the rates or amounts of royalties set forth in Column 5 of Schedule A annexed hereto and by reference made a part hereof, provision for the payment of which by Licensee to Licensor is included in the license or licenses specified in Column 6 of said Schedule A, and which said royalties are directly or indirectly charged or chargeable to the War Department for or on account of the manufacture, use, sale or other disposition for the

United States of certain alleged inventions specified in Columns 1, 2, 3 and 4 of said Schedule A, were believed to be unreasonable or excessive taking into account the conditions of wartime production, and that until the making of an Order herein no royalties should be paid by Licensee to Licensor on account of such manufacture, use, sale or other disposition for the United States; and

Whereas, said Licensor and Licensee, upon their request, have presented in writing and in person such facts and circumstances as they desired having a bearing upon the rates or amounts of royalties to be determined, fixed and specified by Order pursuant to said Act;

[fol. 114] Now, Therefore, upon consideration of the facts and circumstances presented as aforesaid and taking into account the conditions of wartime production, it is hereby *Ordered* as follows viz:

(1) that a fair and just rate or amount of royalty, taking into account the conditions of wartime production, to be paid by Licensee to Licensor pursuant to the licenses specified in Column 6 of said Schedule A in connection with the performance of any War Department contract is hereby determined, fixed and specified to be the rate or amount set forth in Column 7 of said Schedule A;

(2) that, until further Order, Licensee is hereby authorized to pay to Licensor

(a) under the licenses identified in Column 6 of said Schedule A,

(b) under any license between them entered into on or after the effective date of said notice and prior to the date of this Order which grants rights to practice the alleged inventions specified in Columns 1, 2, 3 and 4 of said Schedule A, and

(c) under any license between them entered into on or after the date of this Order which in any respect continues, supplements, modifies or supersedes any of the licenses referred to in subparagraphs (a) and (b) hereof,

royalties as determined, fixed and specified in paragraph (1) of this Order, and no more, in respect of any supplies, equipment or materials delivered to or for the War Department upon which no royalties in excess thereof have been

paid to Licensor on or since the effective date of said notice and which embody or in whose manufacture there were used the said alleged inventions;

(3) that Licensee is hereby directed forthwith to pay over to the Treasurer of the United States the balance of any royalties, accrued or hereafter accruing under the licenses referred to in paragraph (2) hereof, on account of supplies, equipment or materials delivered to or for the War Department, which are in excess of the royalties specified in paragraph (1) hereof and which (a) on the effective date of said notice were due and payable to Licensor but were unpaid or (b) fall due for payment at any time after the effective date of said notice and until such time as Sections 1 and 2 of the said Act of October 31, 1942 are no longer in force; and for so much of said excess as was due and unpaid to Licensor on the effective date of said notice or has fallen due for payment to Licensor since said date and prior to the date of this Order, demand for payment is hereby made.

(4) that Licensee is hereby directed to reduce the contract price of all supplies, equipment or materials, or parts thereof, which have been delivered or are to be delivered by Licensee to or for the War Department or to any con- [fol. 115] tractor or subcontractor for the War Department but for which Licensee has not on the date of this Order received payment, embodying or in whose manufacture there was used the alleged inventions specified in Columns 1, 2, 3 and 4 of said Schedule A, to the extent necessary to give the War Department the full benefit of the reduction in royalty rates specified in paragraph (1) of this Order: and

(5) that reservation is hereby expressly made of the right of any department or agency of the Government, including but not limited to the War Department, to take such other, further or different action as may be authorized by any statute of the United States respecting the Licenses referred to in paragraph (2) of this Order or any license which includes provision for the payment of royalties directly or indirectly chargeable to the Government on account of the manufacture, use, sale or other disposition by or for the Government of the alleged inventions specified

in Columns 1, 2, 3 and 4 of said Schedule A, with the same force and effect as if this Order had not been issued.

Levin H. Campbell, Jr., Major General, Chief of Ordnance; Wayne L. Cockrell, Major, Ordnance Department Hearing Officer.

[fol. 116] The foregoing Order is hereby approved in behalf of the Secretary of War.

By direction of the Under Secretary of War.

Albert J. Browning, Brigadier General, General Staff Corps, Director, Purchases Division, Headquarters, Army Service Forces.

Dated: July 28, 1943.

[fol. 117] SCHEDULE A

Column 1	Column 2	Column 3	Column 4	Column 5	Column 6	Column 7
Title or Short Description of Invention	U. S. Patent No.	Application Serial No.	Foreign Patents	Royalty Stipulated Prior to Date of Notice	Instrument in which royalty Stipulated	Fair & Just Royalty
Auxiliary transmission for Four-Wheel Drive Automotive Vehicles	Ruggles & Smith Pat. #2,173,044			$.50–$1.50	May 16, 1938	$0.00

[fol. 117a] [File endorsement omitted]

[fol. 118] UNITED STATES CIRCUIT COURT OF APPEALS FOR THE THIRD CIRCUIT

[Title omitted]

MOTION BY THE UNITED STATES FOR LEAVE TO FILE A MEMORANDUM BRIEF AS AMICUS CURIAE—Filed November 15, 1943

Comes now the Assistant Attorney General, on behalf of the United States, and respectfully moves the Court for leave to file a memorandum brief as amicus curiae in the instant appeal.

In support of this motion, the Assistant Attorney General states that:

1. This action was commenced by the plaintiff, Timken-Detroit Axle Company, under the Federal Declaratory

Judgment Act (Sec. 274-d Judicial Code; 28 U. S. C. § 400) for judicial determination of whether transfer cases now being manufactured by plaintiff require payment of royalties to the defendant Alma Motor Company under a patent license between the parties. On September 23, 1942, the court below decided that certain of the transfer cases manufactured by Timken were without the scope of the license and thus not subject to royalties to Alma, while others were covered by the license and were thus subject to royalties.

[fol. 119] 2. On February 27, 1943, Alma appealed from the judgment to this effect entered below November 30, 1942.

3. On July 28, 1943, pursuant to the authority contained in Public Law No. 768, approved October 31, 1942 (77th Cong., 2d Sess.), the War Department issued Royalty Adjustment Order W-3 which ordered Timken to pay no royalty whatever under said license agreement on account of the manufacture, use or sale of any structures involved in this action for the United States.

4. According to the allegations made by the plaintiff in this action, all the structures in question now being manufactured by the plaintiff are made solely for the United States. In these circumstances, it is believed that this appeal has been rendered presently moot by the issuance of the Royalty Adjustment Order under Public Law No. 768, since an "actual controversy" does not now exist within the meaning of Section 400 of the Federal Declaratory Judgment Act.

It is therefore respectfully requested that this Court grant leave to the United States to file a memorandum brief as amicus curiae on the question as to whether or not the instant appeal is moot.

Francis W. Shea, Assistant Attorney General.

November, 1943.

[File endorsement omitted.]

[fols. 120-121] IN THE UNITED STATES CIRCUIT COURT OF APPEALS FOR THE THIRD CIRCUIT

[Title omitted]

ORDER GRANTING LEAVE TO UNITED STATES TO FILE AMICUS CURIAE BRIEF—November 15, 1943

And afterwards, to wit, the 15th day of November, 1943, come the parties aforesaid by their counsel aforesaid, and this case being called for hearing on Motion by the United States for Leave to File a Brief as Amicus Curiae, before the Honorable John Biggs, Jr., Honorable Albert B. Maris and Honorable Charles Alvin Jones, Circuit Judges, and the Court not being fully advised in the premises, takes further time for the consideration thereof,

And afterwards, to wit, on the 15th day of November, 1943, come the parties aforesaid by their counsel aforesaid, and the Court, now being fully advised in the premises, grants the Motion for Leave to File a Brief as Amicus Curiae.

[fol. 122] IN UNITED STATES CIRCUIT COURT OF APPEALS FOR THE THIRD CIRCUIT

[Title omitted]

PETITION TO REVIEW AND VACATE ROYALTY ADJUSTMENT ORDER NO. W-3 OF THE WAR DEPARTMENT—Filed December 6, 1943

Now comes the Defendant-Appellant, Alma Motor Company, in the above entitled cause, by its attorney, and under the provisions of Rule 20 of this Court respectfully petitions the Court to review the Royalty Adjustment Order No. W-3 issued July 28, 1943, by the War Department, copy of which, marked Exhibit D, is attached to appellee's Motion to Dismiss Appeal filed herein, and to vacate said Order on the grounds that it is unconstitutional and violates the rights secured to appellant by the Constitution of the United States, which appellant invokes for the protection of its rights.

In support of this Petition appellant submits the Affidavit of William W. Schenck hereunto attached.

Nature of the Proceeding Sought to Be Reviewed

The proceeding here sought to be reviewed is the issuance by the War Department of Royalty Adjustment Order No. W-3 issued as a result of a hearing held February 8, 1943 at Detroit, Michigan, under a "Further Delegation of Authority Under the Act of October 31, 1942 (Public Law No. 768, 77th Congress, 2nd Session)," to Major Wayne L. Cockrell of the Ordnance Department of the United States Army as presiding officer of a Board consisting of the said Major Cockrell, Lt. Col. C. E. Herrstrom, also of the Ord-
[fol. 123] nance Department of the United States Army and Lt. Comm. Ralph L. Chappell of the United States Naval Reserve. (See page 1 of Exhibit C attached to Appellee's "Motion to Dismiss Appeal.")

Statement [illegible]

As set forth in the Affidavit of William W. Schenck, hereunto attached, the only communications received by appellant, Alma Motor Company, relative to the subject matter was the notice dated December 30, 1942, marked Exhibit E, the letter dated January 13, 1943 and marked Exhibit G and the letter dated January 28, 1943, and marked Exhibit H. As will be seen from said Exhibits E, G and H, notice was given to appellant the Alma Motor Company that the hearing to be held on February 8, 1943 was for the stated purpose of examining into the reasonableness of the rate of royalty being paid by the appellee, Timken-Detroit Axle Company, to appellant under a license contract and agreement bearing date of May 16, 1938 and copy of which is attached to appellee's Motion to Dismiss Appeal as Exhibit C.

Petitioner further shows that a hearing in accordance with such notices was held in the City of Detroit, State of Michigan on February 8, 1943 before said Major Cockrell as presiding officer, Lt. Col. Herrstrom and Lt. Comm. Chappell and that during such hearings the question of the reasonableness of the royalty provided for by said contract was not examined into but that instead the entire proceeding was directed to a consideration of the question of validity of the Ruggles and Smith patent No. 2,173,044. (See Exhibit C "Transcript of Proceedings.") As will be seen from a perusal of said "Transcript of Proceedings," no *evidence* concerning the validity of said patent was introduced during such hearings, but an attack on the patent's

validity was made by the mere unsupported argument of William A. Strauch, counsel for appellee, The Timken-Detroit Axle Company. After such attack was launched, counsel for appellee questioned the authority of the Board under Public Law 768 to pass on the question of validity or to decide such question on the mere unsupported state-[fol. 124] ments and arguments of counsel. Whereupon counsel for appellant was advised by the presiding officer, Major Cockrell, that the opportunity for the presentation of full evidence was not to be afforded and that it was "the opinion of the Chief of Ordnance that the said Ruggles and Smith patent No. 2,173,044 is invalid." (Exhibit C pages 12-13.) No evidence upon which the opinion of the Chief of Ordnance was based was submitted to appellant or its counsel nor was any opportunity given to appellant to meet or contest such evidence. Although it was stated by Mr. Strauch in his argument (bottom of page 10 and top of page 11, Exhibit C) that the Board had material additional to that presented in the trial before Judge Kirkpatrick, the averment is made on page 2 of the affidavit of John E. Gallagher "Exhibit B" attached to Appellee's Motion to Dismiss Appeal that he had "been advised * * * the issuance of said order is based on the art of record in this litigation." The situation presented to this Court therefore is one wherein an Administrative Board had issued an order which in effect reverses the judgment of the Federal District Court for the District of Delaware and bases its reversal upon the mere opinion of an administrative officer of the executive branch of the Government without properly disclosing any of the evidence upon which said opinion was predicated or without due or any notice to appellant that would enable it to meet such evidence.

Statement of Facts and Statutes upon which Venue Is Based

Jurisdiction of this cause of action was originally acquired by this court by reason of an appeal from the judgment of the United States District Court for the District of Delaware. The judgment of the said District Court was invoked by plaintiff-appellee, The Timken-Detroit Axle Company, under the provisions of the Federal Declaratory Judgment Act (Sec. 274-d Judicial Code; 28 U. S. C. Sec. 400).

The question of the scope, force and effect of Royalty Adjustment Order No. W-3 issued by the War Department July 28, 1943, is squarely placed before this court by reason of appellee's "Motion to Dismiss Appeal, etc." which appeal was duly filed by appellant in this cause and also by [fol. 125] the Memorandum Brief for the United States as Amicus Curiae filed herein November 15, 1943. Jurisdiction of this present cause is vested in this Court by reason of the provisions of Section 128 of the Judicial Code (U. S. C. A., Title 28; 225).

As appellee's motion to dismiss the appeal and the Amicus Curiae brief are predicated upon the proposition that Royalty Adjustment Order No. W-3 and Public Law 768 divests this Court of jurisdiction of the subject matter involved in appellant's appeal and renders nugatory the judgment of the District Court which still remains to be enforced, the obligation to review said Order and pass upon its constitutionality seems clearly to be inescapable.

Points on which Petitioner Intends to Rely

Petitioner, therefore, invokes the Constitution of the United States for the protection of its rights and respectfully requests this Court to review Royalty Adjustment Order No. W-3 and to vacate such Order as violative of the Fifth Amendment to the Constitution of the United States in that it deprives appellee of vested property rights without due process of law in the following respects:

1. The notices relating to said hearing, Exhibits E, G and H, which unequivocally state that the hearing was to be held for the purpose of examining into the reasonableness of the royalty provided for by such contract do not correspond to the subject matter examined into at such hearing, namely, the validity of the said Ruggles and Smith patent, therefore, the hearing and order issued as the result thereof did not constitute due process of law.

2. The Royalty Adjustment Order W-3 of July 28, 1943 is unconstitutional because it is retrospective in that by its terms in ordering "licensee" (the appellee Timken-Detroit Axle Company) to pay no royalty to "licensor" (Alma Motor Company) see paragraph 2, page 2 and Schedule A [fol. 126] of sa I Royalty Adjustment Order No. W-3, Ex-

hibit D, and ordering licensee forthwith to pay over to the Treasurer of the United States the balance of any royalties accrued or hereafter accruing, see paragraph 3, page 2, of Exhibit D, it destroyed property rights of appellant which had become legally and completely vested long prior to the issuance of said Order.

3. Although said Order does not, in terms, declare patent No. 2,173,044 invalid, the Order providing that there should be no payment of royalty under the contract was clearly based upon a holding of invalidity of said patent predicated upon an "opinion of the Chief of Ordnance" arrived at prior to said hearing, all as appears more fully from the Transcript of Proceeding of said hearing attached to appellant's Motion to Dismiss and marked Exhibit C. As no evidence was produced at said hearing to show what the "opinion of the Chief of Ordnance" was based upon, no proper notice of hearing was given and no findings made to support the legal conclusion of invalidity. The hearing and Royalty Adjustment Order No. W-3 purporting to be issued as a result of said hearing deprived appellant of vested property rights without due process of law in contravention to the constitutional rights of appellant.

4. Insofar as the said Royalty Adjustment Order No. W-3, which by its terms is clearly retrospective, destroyed property rights of appellant which had become completely and legally vested, was authorized by the provisions of Public Law 768, said Public Law is unconstitutional as violative of the provisions of the Fifth Amendment to the Constitution of the United States.

5. That as the said Royalty Adjustment Order No. W-3 and/or Public Law 768 purports to effect and modify a contractual obligation by authorizing a defense to said contractual obligation non-existent at law prior to October 31, 1942 and effecting property rights that had become legally and completely vested prior to such date, said Royalty Adjustment Order and/or said Public Law 768 are invalid and unconstitutional.

[fol. 127] 6. Insofar as the Royalty Adjustment Order No. W-3 held a patent duly issued by the United States Patent Office invalid, or insofar as Public Law 768 authorizes an administrative board to pass upon the validity of a United States patent without notice and without the

opportunity to be heard, without the presentation of any evidence and upon the preconceived opinion of an executive officer, viz: the Chief of Ordnance of the War Department of the United States, such Order and/or Public Law 768 is invalid and unconstitutional as (a) it constitutes an arbitrary and capricious exercise of power and usurpation of a purely judicial prerogative by an administrative board of the executive department of the Government; (b) it deprives appellant of a vested property right without due process of law in contravention to the explicit provisions of the Fifth Amendment to the Constitution of the United States, and (c) is violative of the provisions of Article III, Section 2 of said Constitution and violative of the intent and purpose of second paragraph of Article VI of said Constitution.

Respectfully submitted, Alma Motor Company, by
I. Joseph Farley.

[fol. 128] IN THE UNITED STATES CIRCUIT COURT OF APPEALS
FOR THE THIRD CIRCUIT

[Title omitted]

AFFIDAVIT OF WILLIAM W. SCHENCK

STATE OF MICHIGAN,
County of Wayne, ss:

William W. Schenck, being duly sworn, deposes and says:

I am President of the Alma Motor Company, a corporation organized and existing under the laws of the State of Delaware and having a place of business at Alma, Michigan.

That the Alma Motor Company was made defendant in a declaratory judgment action brought by the Timken-Detroit Axle Company as plaintiff, in the District Court of the United States for the District of Dalaware; that said action was duly brought to trial and judgment was entered therein on December 2, 1942.

That I have read the Motion to Dismiss the above entitled appeal filed by plaintiff-appellee in the above entitled cause and have considered the Exhibits A to D inclusive attached to said Motion.

That on or about January 1, 1943 there was received at the Alma Motor Company a notice from the office of the Chief of Ordnance of the War Department dated December [fol. 129] 30, 1942, signed by L. H. Campbell, Jr., Major General, Chief of Ordnace, photostatic copy of which Notice is attached hereto and marked Exhibit E, notifying the Alma Motor Company that "royalties now being paid by the United States under Ruggles and Smith patent No. 2,173,044 are believed to be unreasonable or excessive"; that after the receipt of such Notice I sent a letter to the said Major General L. H. Campbell, Jr., Chief of Ordnance of the War Department from the Alma Motor Company, signed by me as President of said Company, which letter is dated January 8, 1943 and a copy of which is attached hereto and marked Exhibit F.

That thereafter I received a letter addressed to me as President of the Alma Motor Company from the office of the Chief of Ordnance of the War Department, Washington, D. C., dated January 13, 1943 and signed by Charles E. Herrstrom, Lt. Col., in the Ordnance Department, photostatic copy of which is attached hereto and marked Exhibit G and that subsequently I received a further letter addressed to me as President of the Alma Motor Company from the office of the Chief of Ordnance of the War Department, dated January 28, 1943 and also signed by the aforesaid Charles E. Herrstrom, Lt. Col. of the Ordnance Department, copy of which is attached hereto and marked Exhibit H, and containing notification of a hearing to be held on February 8, 1943 in the Union Guardian Building, Detroit, Michigan "at which the parties in interest may present in writing, or otherwise, any facts or circumstances which may have a bearing upon the rates, or amounts, of royalties, if any, to be fixed."

That no notice pertaining to said hearing other than those attached hereto and marked Exhibits E, G and H, was received at any time by the Alma Motor Company, or by me as President thereof.

[fol. 130] That as President of the Alma Motor Company, I attended the hearing on February 8, 1943 in the Union Guardian Building, Detroit, Michigan, accompanied by present counsel of the Alma Motor Company, I. Joseph Farley, Esquire, stenographic copy of the Transcript of Proceeding at such hearing being attached to plaintiff-appellee's Motion to Dismiss Appeal, etc., and marked Ex-

hibit C, and that it was not until after the completion of the argument made by counsel for the Timken-Detroit Axle Company, William A. Strauch, Esquire, as contained in pages 2 to 8 inclusive of said Transcript and directed solely to the question of the validity of the said Ruggles and Smith patent No. 2,173,044 and not to the reasonableness of the royalty of 50 cents on a transfer case selling for approximately $100.00, or a royalty of ½ of 1 percent, and the following statement of Major Wayne L. Cockrell of the Ordnance Department and the presiding officer of the Board which conducted such hearing—

> "Major Cockrell: The opinion of the Chief of Ordnance is that the patent is invalid"

that the Alma Motor Company, or its counsel, learned that the hearing was to be directed to the question of validity of the said Ruggles and Smith patent No. 2,173,044 and not to the reasonableness of the rate of royalty provided for by the contract of May 16, 1938, copy of which is attached to the said Motion to Dismiss Appeal and marked Exhibit C.

Deponent further deposes and says that the reports rendered by the Timken-Detroit Axle Company to the Alma Motor Company show the following quantities of transfer cases as having been manufactured by the Timken-Detroit Axle Company during the period from September 12, 1939 up to and including September 1942.

[fol. 131]

Timken Company Designation	Number of Cases Made and Sold			
	1939	1940	1941	1942
T-32-13-3		7920		
T-32-13-4	472	3405	708	65
T-32-13-5	32	70		
T-32-15-1	301	1067	1700	715
T-79		8107	46453	29713
T-79-4		100		

Further deponent sayeth not.

William W. Schenck.

Subscribed and sworn to before me this 2nd day of December, 1943. (Sgd.) Elsa E. Taylor, Notary Public, Wayne County, Mich. My Commission expires Jan. 27, 1946. (Seal.)

[fol. 132] EXHIBIT "E" TO AFFIDAVIT

All Communications Should Be Accompanied by Carbon Copy and Addressed to

War Department Department

Office of the Chief of Ordnance

Washington

To Insure Prompt Attention
in Replying Refer to

O. O. No. 072

Attention of SPOGL-Patent Section

December 30, 1942.

Alma Motor Company
Alma, Michigan

Re: Ruggles and Smith Patent 2,173,044

GENTLEMEN:

Pursuant to the Act of October 31, 1942 (Public Law 768, 77th Congress, 2nd Session), notice is hereby given that the royalties now being paid by the United States under Ruggles and Smith Patent No. 2,173,044 are believed to be unreasonable or excessive. It is understood that these royalties are being paid by virtue of an agreement between The Timken-Detroit Axle Company as licensee and Alma Motor Company as licensor.

This notice becomes effective upon receipt or five days after the date hereof, whichever is earlier.

Under the Act the licensee or the licensor, if request is made within ten days from and after the effective date of this notice, may within thirty days from the date of such request present in writing or in person any facts or circumstances which may, in his opinion, have a bearing upon the rates or amounts of royalty, if any, to be determined, fixed and specified as provided in said Act.

Within a reasonable time after the effective date of this notice an order will be made fixing and specifying the rates or amounts of royalty if any, which are determined to be fair and just, taking into account the conditions of wartime production. Such order will authorize the payment by the

licensee to the licensor of only such rates or amounts of royalty.

The Act provides that the licensee shall not after the effective date of this notice pay to the licensor, nor charge directly or indirectly to the United States, a royalty, if any, in excess of that which may be specified in the order to be hereafter made. Until the making of such order no royalties are to be paid on account of the manufacture, use, sale or other disposition for the United States.

[fol. 133] To: Alma Motor Company

December 30, 1942.

Notice is further given that the United States reserves the right to assert a claim to accumulated royalties as to which the licensee, for the purpose of awaiting the outcome of pending litigation, has been withholding payment under the license agreement.

Very truly yours, L. H. Campbell, Jr., Major General,
Chief of Ordnance.

[fol. 134] EXHIBIT "F" TO AFFIDAVIT

884 Penobscot Building,
Detroit, Michigan,
January 8, 1943.

Gen. L. H. Campbell, Jr.,
Chief of Ordinance,
War Department,
Washington, D. C.

MY DEAR GENERAL:

Re: Ruggles and Smith Pat. 2,173,044

This will acknowledge receipt of the notice under the recent "Public Law No. 768" at our Alma plant and dated December 30th, 1942, informing us that the royalties now being paid under the above identified patent are believed to be excessive.

We are quite surprised at your belief, and feel certain that a full discussion of the facts will enable you to alter your belief. We accordingly request a hearing as soon as possible wherein the facts known to us may be presented

to you. If any special form is needed under the Law for us to obtain such hearing we wish you would send us a copy thereof, as procedure under this new Law is something our attorneys seem to be quite hazy about.

We wish you would send further correspondence in connection with this proceeding to our Detroit office, with a carbon addressed to George Rex Frye, Esq., c/o Chas. M. Ravell, 456 Munsey Bldg., Washington, D. C.

Yours very truly, William W. Schenck, Pres., Alma Motor Company.

Attention of
SPOGL-Patent Section
O. O. No. 072

[fol. 135] EXHIBIT "G" TO AFFIDAVIT

All Communications Should Be Accompanied by Carbon Copy and Addressed to

War Department

Office of the Chief of Ordnance

Washington

To Insure Prompt Attention
In Replying Refer to
O. O. No. 072/2396 Misc.

Attention of SPOGL-Patent Section

January 13, 1943.

William M. Schenck, President,
Alma Motors Company,
884 Penobscot Bldg.,
Detroit, Michigan.

Re: Ruggles and Smith patent 2,173,044

DEAR SIR:

Reference is made to your letter of January 8, 1943 (O. O. 072/2279 Misc.), addressed to Gen. Campbell.

Within thirty days from the date of your letter, an opportunity will be afforded the company to present at a hearing any facts or circumstances which may have a bearing upon

the royalties, if any, to be paid under Public Law 768—77th Congress.

You will be advised as soon as practicable of the time and place of the hearing.

For the Chief of Ordnance:

Very truly yours, Chas. E. Herrstrom, Lt. Col. Ord. Dept. Assistant.

[fol. 136] EXHIBIT "H" TO AFFIDAVIT

All Communications Should Be Accompanied by Carbon Copy and Addressed to

War Department

Office of the Chief of Ordnance

Washington, D. C.

To Insure Prompt Attention
in Replying Refer to
O. O. No. 072/2420 Misc.

Attention of SPOGL-Patent Section

January 28, 1943.

Mr. William M. Schenck, President,
Alma Motor Company,
884 Penobscot Building,
Detroit, Michigan.

DEAR SIR:

The Chief of Ordnance is in receipt of a letter mailed in Washington, D. C., on January 9, 1943 (O. O. 072/2279 Misc.), by which the Alma Motor Company requests a hearing under Public Law 768, 77th Congress, in connection with the notice dated December 30, 1942, advising that the royalties being paid under Ruggles and Smith Patent 2,173,044 are believed to be unreasonable or excessive.

In accordance with such letter a hearing is fixed for 2:00 P. M. Monday, February 8, 1943, in the conference room, 29th floor, Union Guardian Building, Detroit, Michigan, at which the parties in interest may present in writing or

otherwise any facts or circumstances which may have a bearing upon the rates or amounts of royalties, if any, to be fixed.

For the Chief of Ordnance:

Very truly yours, Chas. E. Herrstrom, Lt. Col., Ord. Dept. Assistant.

[fol. 136a] [File endorsement omitted.]

[fol. 137] IN UNITED STATES CIRCUIT COURT OF APPEALS FOR THE THIRD CIRCUIT

[Title omitted]

RESPONSE TO CERTIFICATION OF DECEMBER 9, 1943 AND MOTION FOR LEAVE TO INTERVENE—Filed January 3, 1944

Comes now the United States of America, by Assistant Attorney General Francis M. Shea, and shows that:

1. On December 7, 1943 the Clerk of this Court duly certified to the Attorney General, pursuant to the Act of August 24, 1937, 28 U. S. C. 401, that the appellant in the above-entitled matter has challenged the constitutionality of the Act of October 31, 1942, 35 U. S. C. 89 *et seq.* On the same date, said Clerk served upon the Attorney General a certified copy of the appellant's petition of December 6, 1943, to Review and Vacate Royalty Adjustment Order No. W-3 of the War Department, together with supporting brief.

2. The constitutionality of an Act of Congress affecting the public interest is thus drawn in question in this action [fol. 138] and neither the United States, nor any agency thereof, nor any officer or employee thereof is a party thereto. The United States hereby applies for leave to intervene and become a party hereto for the purposes and with all the rights provided by said Act of August 24, 1937.

3. Intervention herein is sought in order to support the constitutionality and validity of the Act of Congress herein drawn in question and of Royalty Adjustment Order No. W-3 issued thereunder.

4. The United States also moves that this Response and Motion be deemed and considered a "Pleading of the United States in Intervention," in accordance with Rule 24(c) of the Federal Rules of Civil Procedure, and that said plead-

ing be deemed the appearance of the United States in support of the constitutionality of the Act of Congress herein drawn in question, in support of said Royalty Adjustment Order No. W-3, and in opposition to all pleadings and motions of the parties hereto that have been or may be made herein insofar as such pleadings or motions contend that said Act of Congress is in any respect, or in any application, unconstitutional, or that said Royalty Adjustment Order is invalid.

5. The United States further moves that if this motion be granted, the United States have until February 14, 1944 for the filing of a brief in this cause, and that it be afforded an opportunity to present oral argument at the proper time.

Francis M. Shea, Assistant Attorney General. Gerald A. Gleeson, United States Attorney.

[fols. 139-140] NOTICE OF MOTION

To Clerk of the Court, United States Circuit Court of Appeals for the Third Circuit, Philadelphia, Pennsylvania; William A. Strauch, J. Matthews Neale, Strauch & Hoffman, 1001 Fifteenth Street, N. W., Washington D. C.; Clarence A. Southerland, Southerland, Berl & Potter, Delaware Trust Building, Wilmington, Delaware; I. Joseph Farley, Thomas J. Hughes, 1664 National Bank Building, Detroit, Michigan; Hugh M. Morris, Alexander L. Nichols, 3018 Dupont Building, Wilmington, Delaware.

[File endorsement omitted].

[fol. 141] IN UNITED STATES CIRCUIT COURT OF APPEALS FOR THE THIRD CIRCUIT

[Title omitted]

ORDER DENYING PETITION TO REVIEW AND VACATE ROYALTY ADJUSTMENT ORDER NO. W-3 OF THE WAR DEPARTMENT—August 7, 1944.

Before Maris, Goodrich and McLaughlin, Circuit Judges

After due consideration and hearing counsel thereon,

It is ordered that the Petition to Review and Vacate Royalty Adjustment Order No. W-3 of the War Depart-

ment filed by Defendant-Appellee on December 6, 1943 in the above entitled cause, be, and the same is, hereby denied.

August 7th, 1944.

By the Court, Goodrich, Circuit Judge.

[File endorsement omitted]

[fol. 142] IN UNITED STATES CIRCUIT COURT OF APPEALS FOR THE THIRD CIRCUIT, OCTOBER TERM, 1943

No. 8300

THE TIMKEN-DETROIT AXLE COMPANY

v.

ALMA MOTOR COMPANY, Appellant.

UNITED STATES OF AMERICA, Intervenor

Appeal From the Judgment of the District Court of the United States for the District of Delaware

Before Maris, Goodrich and McLaughlin, Circuit Judges

OPINION OF THE COURT—Filed August 7, 1944

By GOODRICH, Circuit Judge:

This action was brought under the Declaratory Judgment Act[1] by the Timken-Detroit Axle Company (herein called "Timken") against Alma Motor Company (herein called "Alma"). The plaintiff in the action sought a declaration that certain patents owned by Alma covering mechanism known as a "transfer case" which Alma had licensed Timken to use for a stipulated royalty were invalid and further [fol. 143] that transfer cases manufactured by it did not come within the scope of the license agreement so as to require payment of royalties. Alma counterclaimed for damages on account of alleged unpaid royalties. On September 23, 1942 the District Court held that Timken, as licensee, was estopped to contest validity and, second, that

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[1] 48 Stat. 955 (1934), 49 Stat. 1027 (1935), 28 U. S. C. A. 400.

certain of the transfer cases manufactured by Timken were within and certain others were without the license. Alma appealed to this Court on February 27, 1943.

On July 28, 1943 the United States War Department issued Royalty Adjustment Order No. W-3 pursuant to the Royalty Adjustment Act of October 31, 1942.[2] That order directed Timken to pay no more royalties whatever to Alma under the license agreement for transfer cases manufactured for the United States. Alleging that the "structures here in suit have all been made for the Government," Timken then moved to dismiss the appeal on the grounds that there was no longer a justiciable controversy under the Declaratory Judgment Act. Alma, in response to directions from this Court, asserted its position with regard to constitutionality of the Royalty Adjustment Act by questioning its validity. The Clerk of this Court certified to the Attorney General that the constitutionality of the Act had been questioned and the United States, in response to this certification, filed a petition of intervention on December 30, 1943, pursuant to the Act of August 24, 1937.[3]

Since the transfer cases manufactured by Timken on which royalty payments are claimed were all made in fulfilment of a contract with the United States and since the War Department's order forbade Timken to pay any royalties thereon, it follows that if the statute applies and the order was made pursuant to it, the order in this appeal should be so framed as not to pass upon what has, by events since the original trial, become moot. Before consideration of the statute on which the litigation turns, however, [fol. 144] it will be well to see just what ground was covered by earlier legislation, the constitutionality of which has been settled by authoritative court decisions, and thus more clearly appreciate the scope of the questions involved in the presently considered legislation.

Congress by statute provided in the Act of 1910,[4] as amended by the Act of 1918,[5] that when a patented invention is used or manufactured by or for the United States

[2] 56 Stat. 1013 (1942), 35 U. S. C. A. §§ 89-96.

[3] 50 Stat. 751 (1937), 28 U. S. C. A. § 401.

[4] 36 Stat. 851, 35 U. S. C. A. § 68.

[5] 40 Stat. 705, 35 U. S. C. A. § 68.

without license from the owner, the latter's remedy for recovery of his compensation should be by suit against the United States in the Court of Claims. Thus, patents could be infringed in the course of governmental production or procurement free from threat of injunction against the manufacturer for use of the invention, leaving the amount to be paid to the patentee to be adjusted by suit in the Court of Claims. The constitutionality of this legislation has been upheld. Crozier v. Krupp, 224 U. S. 290, 307 (1912); Richmond Screw Anchor Co. v. United States, 275 U. S. 331 (1928).

This legislation and the decisions upholding it go very far in taking away any element of startling novelty which might impress one first confronted with the 1942 statute. The monopoly given to a patentee, itself a right created by federal legislation, may be in effect requisitioned by the United States in carrying out its constitutional powers, leaving the patentee to recover through litigation the value of the partial appropriation of his patent right. The upholding of this statute demonstrates the constitutionality of the exercise of eminent domain in the patent field, and, likewise, the sufficiency of the provision for recovery of compensation by a suit in the Court of Claims.

The 1910 statute, as amended, did not cover quite the entire field. If the patentee had licensed the contractor to use the invention the statute was not available. Newport News Shipbuilding & Dry Dock Co. v. Isherwood, 5 F. [fol. 145] (2d) 924 (C. C. A. 4, 1925), cert. den. 269 U. S. 592 (1925). In such a case there was no threat of injunction for infringement of the patent which could stop the supplying of goods for the use of the United States. But the testimony presented at the Congressional hearings prior to the passage of the 1942 Act showed a difficulty which, while less acute than the possibility of injunction, was nevertheless thought to be important.[6] It was developed that contractors supplying materials to the Government were under license contracts with patent owners entered into with peacetime scales of production in mind. License rates which were fair enough on a peacetime production scale became unduly high when the demand was increased many-fold by

[6] Hearings, House Committee on Patents, on H. R. 7620 (77th Cong., 2d Sess., October 13-15, 1942) pp. 3, 9, 17-19, 21, 32, 42-44.

the Governmental requirements for global war. The result was high cost of the articles to the public and what was considered to be an unduly rich reward to the owner of a particular patent whose licensee was producing war goods for the United States. Congress, with these considerations in mind, passed the Act of October 31, 1942, the constitutionality of which is questioned here. The statute, the pertinent part of which is quoted in the margin,[7] fills the gap left

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[7] Sections 1 and 2 read as follows:

"*Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled*, That, to aid in the successful prosecution of the War, whenever an invention, whether patented or unpatented, shall be manufactured, used, sold or otherwise disposed of for the United States, with license from the owner thereof or anyone having the right to grant licenses thereunder, and such license includes provisions for the payment of royalties the rates or amounts of which are believed to be unreasonable or excessive by the head of the department or agency of the Government which has ordered such manufacture, use, sale, or other disposition, the head of the department or agency of the Government concerned shall give written notice of such fact to the licensor and to the licensee. Within a reasonable time after the effective date of said notice, in no event less than ten days, the head of the department or agency of the Government concerned shall by order fix and specify such rates or amounts of royalties, if any, as he shall determine are fair and just, taking into account the conditions of wartime production, and shall authorize the payment thereof by the licensee to the licensor on account of such manufacture, use, sale, or other disposition: *Provided, however*, That the licensee or licensor, if he so requests within ten days from and after the effective date of said notice, may within thirty days from the date of such request present in writing or in person any facts or circumstances which may, in his opinion, have a bearing upon the rates or amounts of royalties, if any, to be determined, fixed and specified as aforesaid, and any order fixing and specifying the rates and amounts of royalties shall be issued within a reasonable

by the Act of 1910, as amended. It permits a Governmental [fol. 146] agency to adjust royalty payments to a patentee if the payments provided for in the royalty agreement are thought to be too high. The patent owner is given the opportunity to be heard concerning the matter before the Governmental agency and if the price to be paid is not fixed to his satisfaction as a result of such a hearing he has the right to sue the Government for his compensation.

What we have here is a taking of private property for public use. The property involved is the patent owner's

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time after such presentation. Such licensee shall not after the effective date of said notice pay to the licensor, nor charge directly or indirectly to the United States a royalty, if any, in excess of that specified in said order on account of such manufacture, use, sale, or other disposition. The licensor shall not have any remedy by way of suit, set-off, or other legal action against the licensee for the payment of any additional royalty remaining unpaid, or damages for breach of contract or otherwise, but such licensor's sole and exclusive remedy, except as to the recovery of royalties fixed in said order, shall be as provided in section 2 hereof. Written notice as provided herein shall be mailed to the last known address of the licensor and licensee and shall be effective upon receipt or five days after the mailing thereof, whichever date is the earlier.

SEC. 2. Any licensor aggrieved by any order issued pursuant to section 1 hereof, fixing and specifying the maximum rates or amounts of royalties under a license issued by him, may institute suit against the United States in the Court of Claims, or in the District Courts of the United States insofar as such courts may have concurrent jurisdiction with the Court of Claims, to recover such sum, if any, as, when added to the royalties fixed and specified in such order, shall constitute fair and just compensation to the licensor for the manufacture, use, sale, or other disposition of the licensed invention for the United States, taking into account the conditions of wartime production. In any such suit the United States may avail itself of any and all defenses, general or special, that might be pleaded by a defendant in an action for infringement as set forth in title sixty of the Revised Statutes, or otherwise."

royalty rights under the license with the manufacturer. No one doubts, of course, the power of the Government to take private property for public use if the constitutional requirements for compensation are met. The necessity for the taking in a particular instance is for the legislative body, not the courts, assuming that the purpose is one for which the power might be exercised. North Laramie Land [fol. 147] Co. v. Hoffman, 268 U. S. 276 (1925); Joslin Co. v. Providence, 262 U. S. 668 (1923); Bragg v. Weaver, 251 U. S. 57 (1919).

Was the taking provided for in the 1942 statute one for a public use? It certainly was if it was in pursuance of the war power of the United States, expressly delegated to the national Government by the Constitution. Furthermore, we have authority which supports appropriations in the patent field in the decisions, already cited, applying the 1910 Act. Our only new question here, therefore, is the public use aspect of the extension by legislation to include the taking over of license agreements as well as patent rights not subject to such agreements. It hardly requires discussion to demonstrate that the scope of Governmental activity involved in the prosecution of a war upon the scale which armed conflict involves today reaches far beyond that pertaining directly to the clash of arms. It justifies legislation providing for price control of commodities, Yakus v. United States, 321 U. S. 414 (1944), the fixing of rents, Bowles v. Willingham, 321 U. S. 503 (1944), the furnishing of housing for workers in communities where war goods are made and the determination of what the houses shall be, United States v. City of Chester, — F. (2d) — (C. C. A. 3, 1944). Total war, today, is not a figure of speech but a grim fact.

The readjustment of royalties to be paid to a patent owner of his licensee upon articles supplied to the United States in wartime is also within the scope of the conduct of total war. The demands of the war effort have made first call upon the industrial power of the nation to an extent hitherto unknown. Goods in gigantic quantities are produced as a result of this mobilization. They must be paid for by the taxpayers of the United States. A legislative provision, the purpose of which is to secure the necessary materials at reasonable prices, is not less a part of the general war effort than the procurement of goods of war themselves. The subject-matter of the Royalty Adjust-[fol. 148] ment Act is clearly within the war power of Congress.

We think the statute may constitutionally be applied to royalties which had accumulated between the passing of the statute and the giving of the notice to the patentee by the War Department and also to those which had accumulated prior to the statute. It is especially provided by the Act that the public is to get the benefit of any readjustment in royalties made by a reduction in the price paid for goods purchased from the licensee. The wartime conditions which prompted the passing of the statute existed prior to the date of its enactment and the statute seeks to cover them. It is true that in so doing the public right is asserted against the individual patent owner who has made an advantageous contract for the use of his patent. If the public right is constitutionally asserted within any particular field it prevails over private contracts even in cases of exercise of police or other regulatory power where the person affected is not given compensation. Thus a man who has secured a contract for a free pass cannot claim it against Congressional legislation invalidating his agreement. Louisville & Nashville R. Co. v. Mottley, 219 U. S. 467 (1911). Nor can a shipper who has secured a favorable rate by contract have the advantage of that agreement when legislation provides a different rate. New York v. United States, 257 U. S. 591, 600, 601 (1922). Nor can one with a profitable contract for the sale of intoxicating liquor enforce it after the sale of the subject-matter has been forbidden. Boer v. Garcia, 240 N. Y. 9, 147 N. E. 231 (1925). Nor can a contractual provision for limited benefits to employees preclude the right to recovery under a subsequent enactment of the Federal Employers' Liability Act. Philadelphia B. & W. R. Co. v. Schubert, 224 U. S. 603 (1912). So, here, the exercise of the public use in the pursuance of the wide-sweeping and important war power cuts across private interests. The patent owner's right is, for war purposes at least, subject [fol. 149] to be appropriated in the public interest and his individual contract claims are subordinate thereto. If individual contract rights may be interfered with in pursuance of regulatory power exercised on behalf of the general public it is even clearer that such rights are subordinate to the public interest when compensation is given the individual for such interference.

We pass then to the question of compensation. Alma complains that the hearing before officials of the War De-

partment was, as to it, a deprivation of constitutional rights. The hearing, or conference, is provided for in the sections of the Act quoted above. Alma was notified of a proposed action under the statute with regard to its license agreement with Timken. It appeared by its president, accompanied by counsel, and was heard. Alma complains that the scope of the notice given it and the order, following the hearing, reducing its fees under the license agreement to nothing did not correspond; that is, that the order was not responsive to the notice. We think that the complaint in this respect misconceives both the nature of the hearing and the order which resulted therefrom. The hearing provided for is not in the nature of a complaint before a regulatory agency, but, instead, gives an opportunity for possible amicable adjustment between the Government agency and the patent owner. But the result does not bind the patent owner. By the express terms of the statute he is entitled to sue for what he believes himself to be entitled and the conclusions of the administrative officer are in no way binding upon him or the court.[8] Provision for such a hearing is not constitutionally required; the 1910 Act, as amended, did not include it. The insertion into the law of a provision for a conference which conceivably could result in mutual satisfaction to Government and patent owner can hardly be unconstitutional when no such conference is necessary as a matter of constitutional right and when its results are [fol. 150] not binding upon the patent owner if he later seeks compensation through court action.

The provision for recovery of compensation against the United States through suit in the Court of Claims is sufficient compliance with the constitutional provision for just compensation. Crozier v. Krupp, 224 U. S. 290 (1911); Identification Devices v. United States, 121 F. (2d) 895 (App. D. C. 1941), cert. den. 314 U. S. 615 (1941), 314 U. S. 587 (1942), reh. den. 314 U. S. 710, 714 (1941), 315 U. S. 779 (1942); Pierce v. Submarine Signal Co., 25 F. Supp. 862 (D. C. Mass. 1939). This in itself would be enough to uphold the constitutionality of a statute upon this point. The constitutionality is not impaired by a provision for a con-

[8] The petition of December 7, 1943 by Alma to Review and Vacate Royalty Adjustment Order No. W-3 will be dismissed for want of jurisdiction.

ference or hearing prior to court action which, if satisfactory, amicably adjusts that which otherwise would take litigation to settle. Our conclusion is that the statute is a constitutional exercise of the power of eminent domain by Congress in aid of its expressly granted war power. It simply goes the one step further to cover the exercise of that power in the field of patents, which had already been made by the Act of 1910, as amended. The provision of the law for compensation to the owner is within the constitutional requirement of due process of law. Alma, denied payment under the royalty agreement, is entitled to sue for whatever royalties it believes itself to be entitled and no administrative determination that it is not entitled to them will interfere in its suit. In upholding the constitutionality of the statute we do not, of course, make any determination with regard to the validity or lack of validity of the patents involved in the original litigation.

Nor do we by this decision upholding the Royalty Adjustment Act of 1942 deprive Alma of the benefit of any estoppel secured by the judgment. We therefore direct the following disposition of the case. Paragraph 5 of the judgment entered by the District Court in this cause is vacated and the cause is remanded to the District Court with directions to [fol. 151] proceed no further therein unless and until it shall appear to the Court that a justiciable controversy again exists between the parties arising out of the facts set forth in the complaint, except that the Court may, if it deems such action to be appropriate, vacate all or any part of the remainder of the judgment and dismiss the complaint as moot.

[fol. 152] IN THE UNITED STATES CIRCUIT COURT OF APPEALS FOR THE THIRD CIRCUIT, OCTOBER TERM, 1943

No. 8300

THE TIMKEN-DETROIT AXLE COMPANY

vs.

ALMA MOTOR COMPANY, Appellant

Present Maris, Goodrich and McLaughlin, Circuit Judges

ORDER VACATING PARAGRAPH 5 OF DISTRICT COURT JUDGMENT, ETC.—August 7, 1944

On Appeal from the District Court of the United States, for the District of Delaware

This cause came on to be heard on the transcript of record from the District Court of the United States, for the District of Delaware, and was argued by counsel.

On consideration whereof, it is now here ordered and adjudged by this Court that paragraph 5 of the judgment of the said District Court in this case be, and the same is hereby vacated and the cause is remanded to the District Court with directions to proceed no further therein unless and until it shall appear to the Court that a justiciable controversy again exists between the parties arising out of the facts set forth in the complaint, except that the Court may, if it deems such action to be appropriate, vacate all or any part of the remainder of the judgment and dismiss the complaint as moot.

August 7, 1944.

By the Court, Goodrich, Circuit Judge.

[File endorsement omitted.]

[fols. 153-155] IN THE UNITED STATES CIRCUIT COURT OF APPEALS FOR THE THIRD CIRCUIT

[Title omitted]

ORDER GRANTING APPELLANT LEAVE TO FILE A PETITION FOR REHEARING OUT OF TIME—September 7, 1944

And now, to wit, September 7, 1944, upon consideration of the petition by counsel for appellant, and the mandate of this court not having issued,

It is Ordered that the petition for rehearing which has been tendered by counsel for appellant may be forthwith filed out of time.

By the Court, Jones, Circuit Judge.

[File endorsement omitted.]

[fol. 156] IN THE UNITED STATES CIRCUIT COURT OF APPEALS, FOR THE THIRD CIRCUIT

[Title omitted]

PETITION FOR RE-HEARING—Filed September 7, 1944

Now comes appellant, Alma Motor Company, by its counsel and respectfully petitions this Court under the provisions of its Rule 35 for a re-hearing in the above entitled cause.

[fol. 157] FOREWORD

As the decision of this Court and the disposition of this cause ordered thereby has raised vital and decisive jurisdictional questions heretofore not discussed and apparently not considered either by Court or counsel, we feel it imperative that we first direct attention to the following:

With respect to all of the transfer cases here in issue which were delivered by Timken to or for the Government prior to July 28, 1943, the date of Royalty Adjustment Order W-3, the situation is as follows:

(a) there never was and

(b) there is not now *any public interest* in (1) any royalty payments by Timken to Alma on these particular cases

or (2) any royalty issue between Timken and Alma on these particular cases.* Since Timken elected to and did sell and deliver these particular transfer cases without including any charge to the Government for royalties to Alma in the sales price, any obligation to pay Alma royalties on these particular transfer cases is a jeopardy, not of the Government but of the Timken company exclusively. Only a specific agreement by and between the Government and Timken could have created any present public interest or involvement in such *uncharged* royalty obligations. [fol. 158] Any and all issues concerning royalties on these particular transfer cases (delivered by Timken prior to July 28, 1943, on which royalties to Alma were not included in the sales price) are issues solely between Timken and Alma and therefore:

(a) not matters of public interest;

(b) not within the jurisdiction of the Court of Claims;

(c) not in any sense within any provision or provisions of public Law 768;

(d) This Court should adjudicate this issue (between Timken and Alma) on its merits;

(e) Only royalties to Alma on transfer cases supplied by Timken after July 28, 1943, can possibly be matters for adjudication by the Court of Claims.

[fol. 159] STATEMENT OF FACTS

Jurisdiction of this cause became fully and properly vested in this Court by reason of an appeal from the District Court for the District of Delaware from a judgment of such Court filed December 2, 1942 (R. 367-a, 368-a), opinion filed September 23, 1942 (R. 348-a 366-a) in an action brought by The Timken-Detroit Axle Company under the Declaratory Judgment Act of June 14, 1934, as amended (Sec. 274-d, Judicial Code; 28 USCA § 400). The complaint sought a declaration that a certain patent owned by appellnt, Alma Motor Company, covering a mechanism known as a "transfer case," which Alma had licensed Timken to use for a stipulated royalty was invalid, and further

*Since royalties were paid by Timken to Alma on T-43-P-1 and T-43-V-1 transfer cases these are not here in issue.

that transfer cases manufactured by Timken did not come within the scope of the License Agreement so as to require payment of royalties. (Opinion of this Court, filed August 7, 1944, First Par.) Alma counterclaimed for damages on account of the alleged unpaid royalties. The District Court held that Timken, as licensee, was estopped to contest validity and that as to certain of the transfer cases manufactured by Timken, it, the "plaintiff should have paid to defendant royalties in accordance with license agreement on all such auxiliary transfer cases," (Judgment ¶4, R. 368-a), and that "The remaining auxiliary transmission mechanisms manufactured and sold by plaintiff since the issuance of the Ruggles and Smith patent, either are not dominated by any claim of such Ruggles and Smith patent or no claim of royalty thereon has been made by defendant" (Judgment, Par. 5; R. 368-a).

[fol. 160] Appellant, Alma Motor Company, filed its appeal on February 27, 1943, in this Court from the judgment of the Court below, limiting its appeal to Paragraph 5 of such judgment and only to that part thereof which referred to certain transfer cases designated as the "T-79" series. On October 31, 1942, Public Law 768, known as the Royalty Adjustment Act, was passed.

On December 30, 1942, the War Department issued a notice to the appellant, Alma Motor Company. (Ex. E attached to affidavit of William W. Schenck forming part of appellant's Petition to Review and Vacate, etc., filed in this Court.) On January 8, 1943, Alma Motor Company addressed a letter to the Chief of Ordnance requesting a hearing (Ex. F attached to Schenck affidavit). On February 8, 1943, a hearing was held by a Royalty Adjustment Board at Detroit, Michigan. On July 28, 1943, Royalty Adjustment Order No. W-3 was issued by the War Department (Ex. D attached to Schenck affidavit).

On August 24, 1943, plaintiff-appellee, The Timken-Detroit Axle Company, filed its notice and motion to dismiss Alma's appeal in this Court. In support of this motion to dismiss plaintiff-appellee filed, as Exhibit A, printed copy of Public Law 768; as Exhibit B, the affidavit of John E. Gallagher, patent attorney in charge of the Patent Department of The Timken-Detroit Axle Company, and, as Exhibit C, transcript of the proceedings of

the Royalty Adjustment Board held in Detroit, Michigan, on February 8, 1943.

This cause was first called for hearing before this Court on November 15, 1943. At the outset of the hearing the Department of Justice presented its motion for leave to file a memorandum brief as *Amicus curiae*, in support of Timken's motion to dismiss the appeal. Such leave was granted.

[fol. 161]

The Motion to Dismiss Appeal brought by Timken urged

> "(a) That this appeal be dismissed * * * because of transfer of jurisdiction of the subject matter to the Court of Claims under United States Public Law 768 or, in the alternative,
>
> (b) That this appeal be dismissed and that this cause be remanded to the District Court of Delaware with instructions to reconsider its judgment in light of the War Department order issued against the parties hereto on July 28, 1943, and to take such further action as may be appropriate in the circumstances."

The motion of the Government urged that appellant's appeal had been rendered moot by the issuance of the Royalty Adjustment Order No. W-3 under Public Law 768.

During the hearing on November 15, 1942, Judge Biggs, the senior and presiding judge, directed counsel for appellant to assert Alma's position with regard to the constitutionality of the Royalty Adjustment Act and granted counsel until November 29, 1943, to decide as to whether or not constitutionality of the Act was to be called into question. On December 4, 1943, appellant filed its petition to review and vacate Royalty Adjustment Order No. W-3 and subsequently appellant filed its brief in support of its petition to review and vacate.

On April 18, 1944, this cause was again called for hearing before this Court and was argued by counsel for appellant, counsel for appellee and by the Assistant Attorney

[fol. 162]

General, Hon. Francis M. Shea, for the Government, the entire argument being directed to the constitutionality of the Royalty Adjustment Order No. W-3 and Public Law 768.

On August 7, 1944, this Court filed its opinion upholding the constitutionality of the Royalty Adjustment Act of 1942,—Public Law 768, and directing the following disposition of the case:

> "Paragraph 5 of the judgment entered by the District Court in this cause is vacated and the cause is remanded to the District Court with directions to proceed no further therein unless and until it shall appear to the Court that a justiciable controversy again exists between the parties arising out of the facts set forth in the complaint, except that the Court may, if it deems such action to be appropriate, vacate all or any part of the remainder of the judgment and dismiss the complaint as moot."

On August 21, 1944, appellant filed its Application for Stay of Mandate.

Immediately after the filing of appellant's Application for Stay of Mandate and the receipt by counsel of this Court's order granting such stay, counsel for appellant began a careful study of the record to ascertain those parts thereof that should be printed for submission to the Supreme Court to enable that Court to have a proper understanding of the questions to be raised by petition for certiorari.

As the opinion of this Court in upholding the constitutionality of the Royalty Adjustment Act,—Public Law 768, was largely predicated upon the proposition that the law [fol. 163] was an exercise of the right of eminent domain in the patent field (opinion, page 3) and that the Royalty Adjustment Order No. W-3 constituted "a taking of private property for public use" (opinion, page 5), it became important to determine the state of the record with respect to whether or not the Royalty Adjustment Order No. W-3 constituted "*a taking of private property for public use*" within the purview of Public Law 768. Upon examining the Royalty Adjustment Order No. W-3 it was found that by its terms it provided as follows: (1) The licensee, The Timken-Detroit Axle Company, was ordered to pay no further royalty to the licensor, Alma Motor Company (Par. 2, Royalty Adjustment Order; Ex. D, Schenck affidavit). (2) Timken was ordered forthwith to pay over to the

United States the balance of any royalties accrued or hereafter accruing under such license "which (a) on the effective date of said notice (December 30, 1942) were due and payable to licensor but were unpaid; or (b) fall due for payment at any time after the effective date of said notice * * *" (Par. 3); and (3) It ordered the licensee, The Timken-Detroit Axle Company to reduce the contract price on all material "for which licensee has not on the date of this order received payment" (Par. 4).

Due to the fact that the Royalty Adjustment Order No. W-3 by the provisions of Paragraph 4 thereof specifically exempted from its application any reduction of the contract price for any material delivered by the licensee, The Timken-Detroit Axle Company, "to or for the War Department or to any contractor or subcontractor for the War Department," for which The Timken-Detroit Axle Company had already received payment on the date of the order, July 28, 1943, it obviously became important that the record in the Supreme Court would show which of the [fol. 164] thousands of transfer cases enumerated in the affidavit of William W. Schenck heretofore filed in this Court and shown by the reports of The Timken-Detroit Axle Company to have been manufactured by it during the period from September 12, 1939, up to and including September 1942, had been fully paid for by the Government prior to July 28, 1943, the date of the Royalty Adjustment Order. Obviously, if no reduction to the Government in the contract price of transfer cases, by the amount of the royalty called for by the License Agreement of May 16, 1938, between Timken and Alma, was to be made by the terms of the Order on any transfer cases for which Timken had already received payment on July 28, 1943, the date when the order was issued, neither the Government nor the people of the United States could have any interest in such royalties whether they had already been paid by Timken to Alma or whether they remained unpaid.

In view of this state of affairs, the question would naturally arise in the presentation of the case to the Supreme Court as to which of the thousands of cases involved in this suit and manufactured during the years 1940, 1941 and 1942 were ones for which The Timken-Detroit Axle Company had received payment prior to July 28, 1943. It ap-

peared equally obvious that by far the greater part, if not all, of such transfer cases were ones for which Timken had been fully paid by the Government prior to the date of the Order. Due to the fact, however, that the trial of the cause below in the District Court before Judge Kirkpatrick took place in May, 1942 before the passage of Public Law 768 on October 31, 1942, naturally no testimony was offered or adduced on this subject. Indeed, any such testimony at that time in view of the state of the law then existent would not have been competent, material or relevant.

[fol. 165] Realizing that the record in the foregoing respect was incomplete and insufficient, but through no fault of appellant or counsel who represented it at the trial before Judge Kirkpatrick, present counsel contemplated an application to this Court for discovery concerning the date when payment was made to Timken by the Government for the transfer cases involved in this cause of action.

Upon further study and consideration of the record, however, counsel discovered that the affidavit of John E. Gallagher, the patent attorney "in charge of the Patent Department of The Timken-Detroit Axle Company" was decisive of the matter and rendered moot the question as to whether The Timken-Detroit Axle Company had received payment for the transfer cases here involved prior to the date of the Royalty Adjustment Order. We direct attention to the following from the Gallagher affidavit:

> "* * * our records show that all of the transfer cases held to be infringements or now alleged to be infringements which have been manufactured and sold by The Timken-Detroit Axle Company since September 12, 1939, the date of Ruggles and Smith patent 2,173,044, have been manufactured and sold directly or indirectly to the United States; that royalties have been charged only on T-43-P-1 and T-43-V-1 transfer cases sold to the Marmon-Herrington Company; that, up to the date of the War Department notice of December 30, 1942 ordering The Timken-Detroit Axle Company to discontinue royalty payments to Alma Motor Company, all royalties charged had been paid over to Alma Motor Company as provided in the agreement * * *."

Attention is specifically directed to the fact that the Gallagher affidavit is dated August 17, 1943. As it unequivocally and categorically states that "royalties were charged [fols. 166-194] *only* on T-43-P-1 and T-43-V-1 transfer cases sold to the Marmon-Herrington Company," no royalties whatsoever were charged to the United States Government by the appellee, The Timken-Detroit Axle Company, on any or all the other transfer cases involved in this cause of action.

Therefore, there is no public interest involved in the right of appellant, Alma Motor Company, to recover the royalties, held by the District Court to be payable by Timken to Alma by the terms of its private contract with Alma, on any transfer cases which Timken manufactured and sold prior to August 13, 1943, the date of the Gallagher affidavit.

Likewise there is no public interest involved in the right of Alma to recover its royalties on any other transfer cases, in the sale price of which no royalties to Alma have been included and which are dominated by any of the claims of the Ruggles and Smith patent in suit, and specifically on the T-79 series of cases involved in appellant Alma's appeal.

[fol. 195] IN UNITED STATES CIRCUIT COURT OF APPEALS FOR THE THIRD CIRCUIT

[Title omitted]

ORDER AMENDING OPINION—Oct. 2, 1944

Present: Maris, Goodrich, McLaughlin, JJ.

And Now, to wit: this 2nd day of October, 1944, it is ordered that the opinion of the Court filed August 7, 1944, be and the same is hereby amended by deleting the word "again" at the end of the second line on page ten of the printed opinion so that the last sentence of the said opinion shall read as follows:

> "Paragraph 5 of the judgment entered by the District Court in this cause is vacated and the cause is remanded to the District Court with directions to proceed no fur-

ther therein unless and until it shall appear to the Court that a justiciable controversy exists between the parties arising out of the facts set forth in the complaint, except that the Court may, if it deems such action to be appropriate, vacate all or any part of the remainder of the judgment and dismiss the complaint as moot."

By the Court, Goodrich, Circuit Judge.

[File endorsement omitted.]

[fol. 196] In the United States Circuit Court of Appeals for the Third Circuit

[Title omitted]

Order Denying Petition for Rehearing—October 2, 1944

And Now, to wit October 2, 1944 after due consideration, the petition for hearing in the above-entitled case is hereby denied.

John Biggs, Jr., Circuit Judge.

[File endorsement omitted]

[fol. 197] Clerk's Certificate to foregoing transcript omitted in printing.

[fol. 198] In the Supreme Court of the United States

[Title omitted]

Stipulation Respecting Printed Record—Filed Oct. 16, 1944

In accordance with the provisions of Rule 38 (8) of the Rules of the Supreme Court of the United States, it is hereby stipulated by and between counsel for the respective parties hereto that the following material be printed as constituting all of those parts of the record in the Third Circuit Court of Appeals necessary for the consideration of the questions to be presented to the court by a Petition for Writ of Certiorari to be filed herein and that all other parts of

said record in said Court of Appeals be omitted as not essential to a consideration of such questions.

(1) Pages 1a to 24a of Appellant's Appendix.

(2) Supplementary Appendix to Brief for Appellant, pages 1b to 14b.

(3) Pages 343a to 368a, inclusive, and Notice of Appeal, page 369a of Appellant's Appendix.

(4) Motion to Dismiss Appeal, etc. (4 typewritten pages), including the following attached thereto:

Exhibit A, Public Law 768
Exhibit B, affidavit of John E. Gallagher
Exhibit C, Transcript of Proceedings * * * before Major W. Cockrell (27 pages)
Exhibit C, License Agreement forming part of and attached to Transcript of Proceedings (photostatic copy, 4 pages)
Exhibit D, Royalty Adjustment Order (photostatic copy, 7 pages).

(5) Motion by the United States for Leave to File a Memorandum Brief as Amicus Curiae.

[fol. 199] (6) Order of Third C. C. A. granting Motion for Leave to File Brief as Amicus Curiae.

(7) Petition to Review and Vacate Royalty Adjustment Order W-3 of the War Department (6 typewritten pages) including:

Affidavit of William W. Schenck (4 typewritten pages)
Exhibit E (photostatic copy, 2 pages) War Department notice of December 30, 1942.
Exhibit F, letter of January 8, 1943, (photostatic copy, 1 sheet) to General L. H. Campbell, Jr.
Exhibit G (photostatic copy) letter of January 13, 1943, to William W. Schenck, president of Alma Motor Company from War Department.
Exhibit H, letter of January 28, 1943, to William W. Schenck, president of Alma Motor Company from War Department.

(8) Response by the United States to Certification * * * and Motion for Leave to Intervene (2 pages).

(9) Order filed August 7, 1944, Denying Petition to Review and Vacate.

(10) Opinion of the Court filed August 7, 1944, (printed copy, 10 pages).

(11) Order Vacating paragraph 5 of District Court Judgment Remanding Case, etc. filed August 7, 1944.

(12) Petition for Rehearing (pages 1 to 11, inclusive, of printed copy).

(13) Order Amending Opinion filed October 2, 1944.

(14) Order Denying Petition for Rehearing filed October 2, 1944.

(15) Third C. C. A. Clerk's Certification.

I. Joseph Farley, Attorney for Alma Motor Company; William A. Strauch, Attorney for Timken-Detroit Axle Company.

October 13, 1944.

[fol. 200] SUPREME COURT OF THE UNITED STATES

ORDER ALLOWING CERTIORARI—Filed February 5, 1945

The petition herein for a writ of certiorari to the United States Circuit Court of Appeals for the Third Circuit is granted.

And it is further ordered that the duly certified copy of the transcript of the proceedings below which accompanied the petition shall be treated as though filed in response to such writ.